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Fiscal Survey of the States

September 1987

By Karen Benker

National Association of State Budget Officers
National Governors' Association

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PREFACE

The *Fiscal Survey of the States* is published semi-annually by the National Association of State Budget Officers (NASBO) and the National Governors' Association (NGA). The series was started in 1977. The survey presents aggregate and individual data on the states' general fund receipts, expenditures, and balances. While not the totality of state spending, these funds are used to finance most broad-based state services, and are the most important elements in determining the fiscal health of the states. A companion survey is now performed annually that includes all state spending.

The field survey on which this report was based was conducted by the National Association of State Budget Officers from July through September 1987. The questionnaires were completed by Governors' state budget officers.

Fiscal 1988 will close for forty-six states on June 30, 1988. New York's fiscal year ends on March 31, 1988. Texas' fiscal year will close August 31, 1988, and Michigan's and Alabama's on September 30, 1988. Fiscal 1987 number are still estimated amounts. Fiscal 1988 and fiscal 1989 budget data reflect the enacted appropriated budget.

The *Fiscal Survey of the States*, September 1987, is the result of a cooperative effort of the National Governors' Association and the National Association of State Budget Officers. Text and data for the report were written and assembled by Karen M. Benker of the National Association of State Budget Officers. Additional support was provided by Arlene Preston and Larry Dzieza. Rae Young Bond of the Office of Public Affairs of the National Governors' Association edited and coordinated production for the report.

EXECUTIVE SUMMARY

The word that most aptly describes state budgets for fiscal 1988 is "frugal." States held the line on spending increases for the newly enacted budgets and few new spending initiatives were adopted. In most instances, the 1988 budget simply maintains existing services and offers selective program enhancements.

Despite small expenditure increases projected for fiscal 1988, states had an unusually active tax year, substantially raising tax levels. In dollar terms, the amount of revenue raised by state tax increases over the past decade was surpassed only in 1983, during the height of the last recession. Aside from simply increasing revenues, major reform of personal income tax systems was undertaken in about half the states, spurred by state conformity to federal tax laws. Clearly, 1987 has earned the distinction of being a landmark year for state tax developments.

These actions – small budget increases and numerous tax changes – effectively illustrate the result of slow to moderate growth of the national economy. However, economic performance across regions of the country varies greatly. The New England and Mideastern states continue to be the model of a flourishing economy. However, states in the Southwest and Rocky Mountain regions still are experiencing difficult times attributed to a weak energy sector, while farm states continue to cope with a poor-performing agricultural economy.

Major findings of this survey include:

- Thirty-three states raised tax levels in 1987 by $6.6 billion, while six states lowered taxes by $0.5 billion, for a net increase of $6.1 billion. The only other year in recent times that exceeded this dollar amount was 1983, when 38 states raised taxes by $7.4 billion.

- Most state personal income tax systems conform to some degree to the federal income tax. When Congress adopted major federal tax reform in 1986, these changes significantly affected state taxes. Without offsetting changes, states would have accumulated an additional $6 billion in new tax dollars. However, 31 states to date have addressed the issue of conformity and have returned 81 percent of this estimated "windfall" to the taxpayers.

- As a result of altering state personal income tax codes primarily to adjust for the "windfall," many states adopted sweeping income tax reform. In total, 22 states and the District of Columbia revamped their personal income tax codes by broadening their tax bases, increasing personal exemptions and standard deductions, altering the number of tax brackets, and lowering tax rates.

- Expenditures for fiscal 1988 show the smallest increase since the recession. Enacted budgets will grow only 5.7 percent over the prior year, but when adjusted for inflation, the real increase is only 1.1 percent.

- Projected year-end balances for fiscal 1988 are extremely meager. Only $3 billion, equaling 1.3 percent of expenditures, is set aside to protect states against adverse changes in the economy and erroneous revenue and/or expenditure forecasts. Three states are actually projecting deficits for the year. Fiscal 1987 ended with only a $3.5 billion ending balance equaling 1.6 percent of expenditures.

- Thirty-six states now have established budget stabilization funds. Although they are widely endorsed by states, few states have been financially able to place sufficient dollars into these funds. For fiscal 1987, budget stabilization funds contain $1.9 billion, which equals only 0.9 percent of expenditures. In fiscal 1988, the funds will be $2.3 billion or 1.0 percent of expenditures.

I. STATE EXPENDITURE DEVELOPMENTS

Expenditure Growth Rates. Since fiscal 1985, annual state spending growth rates have been shrinking each year. From that year's high of 10.2 percent, growth in state spending decreased to 6.3 percent in fiscal 1987 and 5.7 percent for appropriated fiscal 1988. In real terms, state expenditures have risen 2.6 percent for fiscal 1987 and 1.1 percent for 1988, respectively. The size of state government continues to grow, but the pace of growth has slackened off dramatically in recent years.

Overall, state spending patterns show that states are maintaining existing services and offering few new initiatives that would increase spending. Budgets that simply maintain current services are the norm. This is primarily the case because the national economy has been performing at modest growth levels, which precludes substantial new revenues from flowing into state treasuries.

As helpful as national averages are in summarizing state fiscal conditions, it is important to remember that there is always a wide range of differences among states. For example in fiscal 1987, there are six states where spending in nominal dollars will be less than the prior year. The largest declines in spending occur in Alaska, down 14 percent; Louisiana, 11 percent; and Alabama, 8 percent. When inflation is taken into account, these percentages are even larger. However, economic prosperity is still pervasive in the New England region where nominal budget increases in fiscal 1987 are substantially above the average. For example, Connecticut and Maine increased their budgets by 10 percent, and Massachusetts' budget rose by 11 percent. Regional economic differences still exist and are very discernable.

In summary, 23 states increased spending by 5 percent or less for fiscal 1987 and 19 states will increase spending in that range for fiscal 1988 (see Table 1). Each year, nine states recorded expenditure increases of 10 percent or more. Early indications for fiscal 1989, demonstrated by the 16 states that have adopted biennial budgets, show that spending rates will remain about the same. No major shifts in budget policy are anticipated, assuming the economy expands at its current pace.

Map 1

Real Expenditure Growth in Fiscal 1988 State Budgets

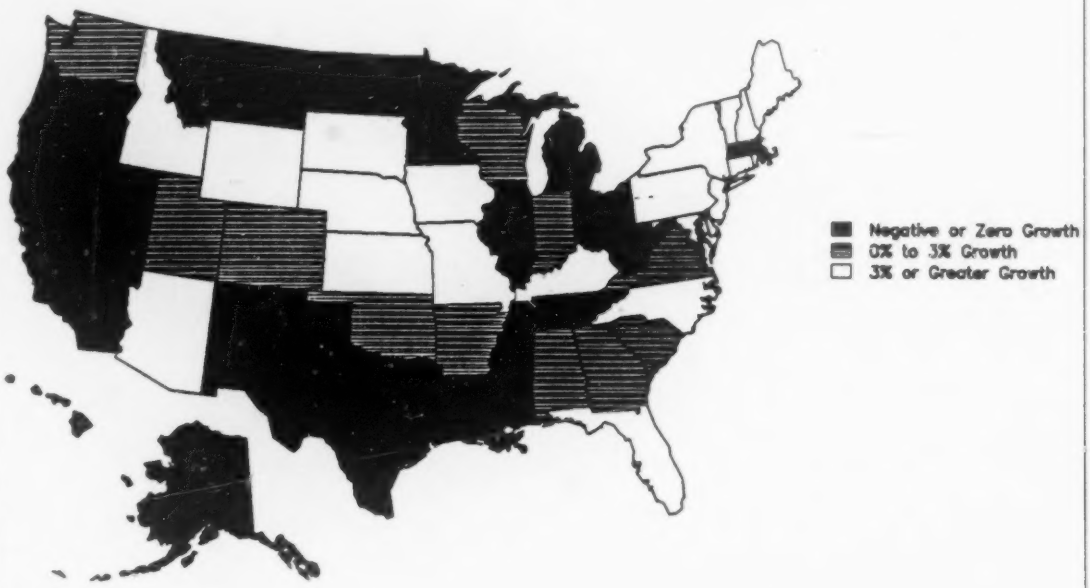


Table 1
ANNUAL GENERAL FUND EXPENDITURE INCREASES

Budget Growth Rate	*Nominal Change*			*Real Change*		
	Fiscal 87 (Estimated)	*Fiscal 88 (Appropriated)*	*Fiscal 89 (Appropriated)*	*Fiscal 87 (Estimated)*	*Fiscal 88 (Appropriated)*	*Fiscal 89 (Appropriated)*
Less than 0%	6	4	1	17	17	9
0-5%	17	15	8	20	24	6
5-10%	18	22	6	11	9	1
Over 10%	9	9	1	2	0	0
Total States	50	50	16 *	50	50	16 *
Average Growth Rate	6.3%	5.7%	6.3%	2.6%	1.1%	1.2%

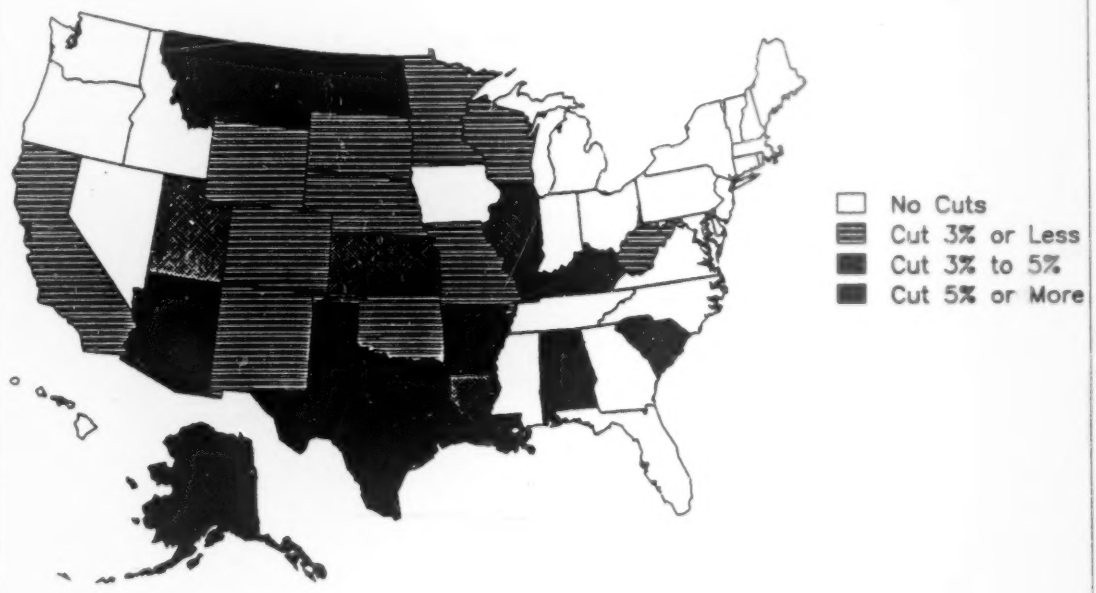
* Figures represent states with biennial budgets.

NOTE: The state and local government implicit price deflator was used to change nominal dollars into real dollars. Real increase figures do not take into account population growth.

It is interesting to compare the NASBO/NGA survey released in March 1987, which was based on Governors' recommended budgets for fiscal 1988, with current appropriations. At that time, Governors proposed an aggregate 3.9 percent increase, which was substantially lower than the legislatively enacted 5.7 percent increase. In dollar terms, legislators appropriated $5 billion more than the Governors requested. A portion of that additional spending was financed through tax increases.

Map 2

Fiscal 1987 Budget Cuts



Budget Cuts. One of the best indicators of a state's fiscal health is whether a state cuts its budget after it has been enacted into law. Almost half of the states made budget cuts that totaled $3.0 billion during fiscal 1987. In total, twenty-four states made budget cuts ranging from $2.3 million in South Dakota to $668 million in Texas. In percentage terms, the largest cuts occurred in Montana, 9.7 percent; Alaska, 7.5 percent; Arizona, 6.6 percent; Texas, 5.8 percent; Arkansas, 5.4 percent; and North Dakota, 5.1 percent. Most states that made cuts are located in the western half of the country. Appendix Table A-7 provides specific state information, while Graph 1 shows recent trends in the number of states cutting their budget.

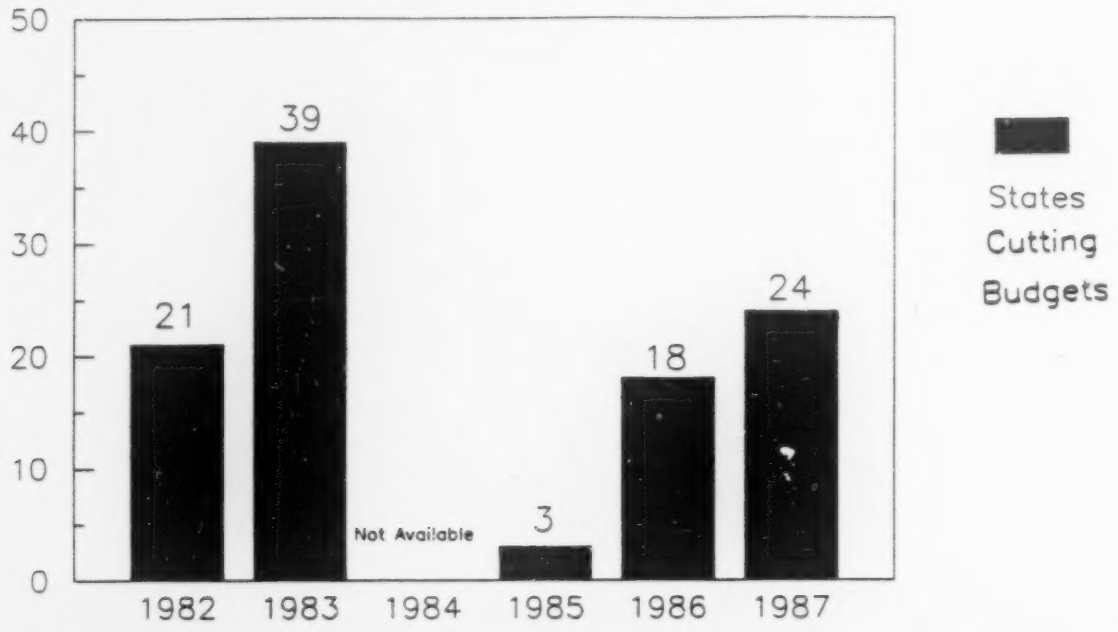
In most states, authority to cut the budget lies with the Governor, usually as means to manage state expenditures without calling special legislative sessions. Governors often have discretion over how the budget cuts are enacted and what programs may be held harmless from the cuts. This year, as in the past, Governors attempted to protect

the education budget from cuts or reduced these budgets less than those of other state functions. This was true in Illinois, Minnesota, Montana, Oklahoma, Texas, and Wisconsin. Other areas protected from cuts included income maintenance programs, corrections, and aid to local governments.

The number and size of budget reductions in fiscal 1987 is unusually high for a non-recession year. There are two reasons for this. First, the fiscal situation in certain regions of the country were clearly distressed--particularly states that rely heavily on the energy sector. Second, since the taxpayer revolt in the late 1970s and early 1980s, state budget officials have altered their budget practices by greatly reducing the normal size of state year-end balances. With such small ending balances, state officials have few options to choose from when balancing budgets, even when only minor setbacks materialize.

Graph 1

State Budget Cuts, FY 1982 to FY 1987



State Employees. Personnel costs are one of the largest components of a state budget. The size of employee compensation packages, or other adopted measures affecting the workforce, generally reflect the health of state finances.

Salary compensation packages adopted for fiscal 1988 are modest in size. No across-the-board or cost-of-living increase is more than the 6 percent increases adopted by Hawaii and New York. Otherwise, annual raises of 2 or 3 percent are common. Thirteen states and the District of Columbia report no general salary increase. Cost-of-living increases are being eliminated in most financially pressed states west of the Mississippi. Employees in a few of these states will be eligible for merit or step increases, but in some instances state employees will not receive any additional compensation. Appendix Table A-8 summarizes salary compensation packages.

The growth in the size of state workforces is slowing markedly. As presented in a past survey, between 1985 and 1986, the growth rate for new employees was 0.9 percent on a full-time equivalent basis, excluding elementary, secondary, and higher education employees. Between 1986 and 1987, state workforces grew only 0.4 percent. The U.S. Census Bureau estimates annual population growth at 0.9 percent, which means that state workforces did not keep pace with population growth.

Once again, there are significant differences between states (see Appendix Table A-9). Some of the largest increases in state employment occurred in Arizona, up 5.2 percent; New Hampshire, 4.3 percent; and Maryland, 4.1 percent. An unusually high number – 21 states – reported that their workforces either maintained the same size as the previous year or actually shrunk in size. The largest decreases were found in South Dakota, down 7.1 percent; Iowa, 7 percent; and Alaska, 4.3 percent.

Several states have reported lay-offs for fiscal 1987 and expect lay-offs in fiscal 1988 (see Table 2).

Table 2
STATE LAY-OFFS

State	*Number of Employees*	
	1987	*1988*
Alaska*	597	572
Arkansas	240	
Colorado	150-200	
Illinois		1,755
Louisiana	752	
Mississippi**	460	
Montana	145	
New Jersey**	150	
New York**	95	585
North Dakota**	350	
Oklahoma	20	
Texas**		150

* Alaska deleted positions, but did not necessarily have lay-offs.

** States reported lay-offs resulting from government reorganization or closing of institutions, which may not reflect tight fiscal conditions.

States are also searching for other methods to cut employee costs, and a popular policy this year has been to offer early retirement programs. Arkansas, California, Ohio, Oklahoma, Texas, Utah, and Wyoming have used this approach. Three states – Arizona, Colorado, and Oklahoma – reported temporarily reducing state pension contributions as a means to cut state expenses. Other states have delayed salary increases to begin sometime after the fiscal year begins.

AFDC Benefit Increases. For the first time since this survey was instituted, benefit increase information for the federal-state Aid to Families with Dependent Children (AFDC) income maintenance program was collected. Most states do not provide automatic cost-of-living adjustments to the monthly welfare stipend and must appropriate increases. For fiscal 1988, benefit increases ranged from 1.0 percent to 14 percent; however, 22 states did not provide for any increase (see Table 3).

Table 3
COST-OF-LIVING INCREASES FOR AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC), FISCAL 1988

State	% Increase	State	% Increase
Alabama	0.0	Montana	0.0
Alaska	2.0	Nebraska	0.0
Arizona	0.0	Nevada*	14.0
Arkansas	6.79	New Hampshire*	2.0
California	2.6	New Jersey	5.0
Colorado*	2.9	New Mexico	2.0
Connecticut	1.9	New York*	8.0
Delaware	0.0	North Carolina	12.2
District of Columbia	4.0	North Dakota	4.0
Florida*	4.0	Ohio*	0.0
Georgia	2.5	Oklahoma	0.0
Hawaii	0.0	Oregon*	4.0
Idaho	0.0	Pennsylvania*	5.0
Illinois	0.0	Rhode Island	4.0
Indiana	12.5	South Carolina	0.0
Iowa	0.0	South Dakota	0.0
Kansas	1.5	Tennessee	2.67
Kentucky	0.0	Texas	0.0
Louisiana	0.0	Utah	0.0
Maine	2.5	Vermont	2.0
Maryland	4.0	Virginia	0.0
Massachusetts	7.0	Washington	0.0
Michigan	3.0	West Virginia	N/A
Minnesota	0.0	Wisconsin	0.0
Mississippi	0.0	Wyoming	0.0
Missouri	1.0		

*Notes:

Colorado	Increase effective January 1988.
Florida	Increase effective January 1988.
Nevada	For recipients with housing allowances, the increase is 5.3%.
New Hampshire	The increase for fiscal 1989 is 2.0%.
New York	Increase effective January 1988.
Ohio	For fiscal 1989, a 4% increase is effective January 1989.
Oregon	For fiscal 1989, the increase is 2.0%.
Pennsylvania	Increase effective January 1988.

Tax and Expenditure Limitations. Forty-nine states have constitutional or statutory balanced budget requirements and 20 states also have tax or expenditure limitations. New Mexico was the latest state this year to adopt a limit.

Typically, these limitations operate by constraining the annual spending increase allowed for state government budgets. The spending ceilings usually are determined by such factors as the annual increase in the consumer price index, the increase in state personal income, and the change in population. Up until just a few months ago, few states were being hampered by these limits or caps, which originated during the "Tax Revolt" era. Recently four states have surpassed or have nearly reached their allowable expenditure or revenue ceilings and may have to act to avoid triggering the limit. These are:

California. As a result of stronger than anticipated revenue collections in fiscal 1987, the Governor has proposed and the legislature adopted a $1.1 billion tax rebate in the form of personal income tax credits. Some groups in the state are working to call for a

popular vote to alter the limitation, so the excess revenue can be used toincrease education spending. Fiscal 1988 may also be affected by the limitation.

Massachusetts. Even though the state adopted its revenue limit just last year, the state auditor has reported that the state is $29 million over the ceiling for fiscal 1987. A personal income tax credit probably will be the vehicle for rebating the excess revenues, but litigation over the issue is expected. Fiscal 1988 revenues appear to be comfortably under the limit.

Missouri. The legislative decision to retain the income tax windfall may have triggered the revenue limitation for fiscal 1988 and 1989. State officials will not be sure until later in the year if a tax rebate is necessary. Under the cap, the state may exceed the limit by 1 percent, but if revenues are above that figure, the total excess must be refunded.

Oregon. For the 1987-89 biennium, the state surpassed its appropriation limit by $95 million.

Placing limits on government spending still has popular appeal. In recent years, states that provide for the citizen initiative process have seen similar limitations appear on the ballot almost every two years. Thus far, the more radical measures have failed.

Aid to Local Governments. The $4.6 billion federal general revenue sharing program for local governments was terminated by Congress last year. It appears that the federal-local partnership that evolved during the 1960s is slowly being phased-down and, as a result, local governments will increasingly depend on state governments for funds. As the federal monies shrink, states will be faced with two options: to appropriate more state dollars for local governments to spend or to empower them with greater taxing authority.

States adopted numerous initiatives this year to provide increased support to cities and counties. Most of these actions (see Table 4) give local governments more latitude in carrying out their responsibilities. Of the 18 states that increased local government taxing authority or provided additional aid, seven states specifically identified the loss of general revenue sharing as one of the motivations for granting aid.

Table 4
NEW STATE INITIATIVES TO AID LOCAL GOVERNMENT

California	State assumed responsibility of trial courts from local governments for a savings to local governments of $350-$375 million.
Colorado	Cultural district sales tax subject to voter approval in Denver metropolitan area.
	Gave Denver convention center funds.
	Allows counties to levy a tourist sales tax of 1/10%.
	Allows counties to impose sales tax in special districts.

(continued)

Table 4 *(continued)*
NEW STATE INITIATIVES TO AID LOCAL GOVERNMENT

Connecticut	Established Property Tax Relief Fund.
	Revised formula grants to provide additional funds.
	Additional aid to meet state-mandated teacher salary enhancement.
Florida	Expanded sales tax base which rose one-half cent, which is distributed to cities and counties.
	Passed one-cent local option tax.
Idaho	Locals will receive 13.75% of state's new sales tax increase (previously allowed 13.75% of first four cents).
	Established county medical assistance fund to allow them to match federal Medicaid funds for county's medical indigent programs.
Kentucky	Changed formula for disbursing Local Government Economic Assistance Fund. Now they will get 12% of amount collected in 1988 (was 50% of amount over $177.6 million).
Massachusetts	FY87 budget added $60 million in replacement of GRS loss.
	FY87 budget distributed additional $180 million in unrestricted aid.
	FY88 budget increase in unrestricted aid is $135.6 million.
	State changed proposition 2-1/2 to allow override of cap by majority referendum rather than two-thirds vote.
Missouri	Greater authority to levy sales tax subject to voter approval.
Montana	Distribution of lottery revenues.
Nevada	Increased the property tax lid from 4.5% to 5% and thereafter, 6%.
New Jersey	Proceeds from tax amnesty program (estimated $50 million) are appropriated to state's most distressed cities.
North Carolina	Increase in local option sales tax.
	Allow room occupancy taxes.
	Increase aid for school capital projects.
North Dakota	Allow additional 1% city lodging and restaurant tax for city visitors promotion capital construction fund.
	Raise property tax increase lid from 3% to 5%.
Ohio	Formula and base for Local Government Fund were changed to provide more stability to the fund.
	Established supplemental fund, but deposits will not begin until 7/1/89.
Rhode Island	General aid formula was changed to reflect formula paralleling GRS distribution. Also, total appropriations increased from $26.2 million to $39.8 million.
South Dakota	One-year increase of $2 million from oil overcharge dollars for highway and bridge repair.
Vermont	Increase aid to school districts.
	Increase circuit breaker property tax relief for third year in a row.
Virginia	Allow certain counties to form special transportation districts with new taxing powers.

II. STATE REVENUE DEVELOPMENTS

Tax issues dominated the fiscal agenda of most Governors and legislators this year. The debate centered on two issues: how to respond to the potential income tax windfall generated by federal tax reform and how to raise new revenue for fiscally troubled states. A third issue that is less important nationally, but which captured the interest of Governors and the media was Florida's action to apply the sales tax to most services.

The degree of tax activity and the significant changes that occurred in 1987 have not been matched by any other year in recent decades. Many states adopted major tax reforms, producing an overhaul of the tax code and generally creating a more progressive tax system. In addition, 1987 brought higher tax levels, especially for taxpayers in certain states.

Annual Revenue Growth. In aggregate terms, state general fund revenues grew by 6.7 percent in fiscal 1987 and are projected to increase by 6.2 percent for fiscal 1988. These percentages closely match the expenditure growth rates for the same period. However, looking at states individually, several report total revenue collections that are lower in fiscal 1987 than the previous year. These states include: Alaska, Arkansas, Iowa, Louisiana, Michigan, Montana, New Mexico, North Dakota, Texas, West Virginia, and Wyoming. The trend clearly demonstrates the impact the weak energy sector is having on the revenue-producing ability of western states.

State Cash Flow Changes. This year information was gathered to compare collected receipts for sales and personal income taxes with original revenue estimates used for fiscal 1987 budgets (see Appendix Table A-10). For sales tax collections, 17 states reported lower collections than originally forecasted; however, in most cases tax collections missed original targets by very small percentages. Only ten states reported lower than anticipated 1987 personal income tax collections.

One unusual factor had a major influence on income tax collections in fiscal 1987, generally providing states with higher revenue collections. This factor was the federal tax reform bill passed in 1986, which caused many taxpayers to modify their investing and consumption habits to begin the transition to the new tax laws. Temporary changes in state cash flow occurred primarily because federal taxes place a large burden on taxpayers and can easily influence taxpayer behavior, despite any tax policy actions taken by states. Therefore, when the federal government eliminated the preferential tax rate for capital gains, taxpayers attempted to maximize their tax opportunities. Many tried to realize

their gains before the new tax law took effect in January 1987. In the last quarter of 1986 and the first quarter of 1987, many more taxpayers than normal cashed-in their capital gains and, as a result paid, more in both federal and state income taxes. At the federal level, this translated into almost $10 billion in accelerated revenue reported for fiscal 1987. The same phenomenon occurred at the state level. Some states have attempted to calculate this increased personal income tax revenue flow such as Connecticut with a gain of $159 million; New Jersey, gaining about $200 million; New York, $850 million; and California, about $1 billion.

While these actions temporarily increased state cash flow, the implication has for future years is not clear. No one can determine future taxpayer behavior patterns. One theory that has been generally accepted is that fewer capital gains will be realized than in past years because taxpayers will hold on to their assets for much longer periods of time. This may have a negative affect on state tax collections in the future.

How States Responded to the Federal Income Tax "Windfall." The changes in the federal tax code – the most sweeping tax reform measures ever enacted – have important implications for state tax structures that rely on the federal code for their own state tax computations. Of the forty states that have a broad-based personal income tax, most conform to some degree to federal income tax law. These states generally accept federal definitions of income and incorporate many of the federal deductions, exemptions, and exclusions into their own tax codes.

When the federal government eliminated or curtailed many deductions and other tax expenditures, it greatly broadened the definition of taxable income – effectively broadening the definition for the states as well. If states continue to rely on the current federal definition of income and do not make any further adjustments, some states would realize a revenue gain. This revenue hike has been called a "windfall" for the states. Most states, however, have adjusted their personal income tax systems. In effect, they will avert this tax increase and the so-called "windfall" will never materialize in many cases.

The amount of the personal income tax windfall – calculated by assuming states completely conform to the new federal tax law and make no other offsetting revenue changes – would total about $6 billion in fiscal 1988.

Of the 31 states to date that have determined whether to keep or return the revenue hike, 15 are returning $4.6 billion, 2 are returning part of the increase, and 14 are retaining $1.1 billion for state programs. This translates into returning about 81 percent of the windfall back to the taxpayers (see Table 5).

It is interesting to note that even though about same number of states are returning the windfall as keeping it, those states that are returning the windfall are more heavily populated, which greatly effects the dollar totals.

Michigan is the only other state that is expected to take action this year and is on record for returning the tax windfall back to the taxpayers. If this occurs, the percentage returned to taxpayers increases a small amount (see Appendix Table A-11).

Among the remaining 18 states, tax reform decreases tax revenues in five states, and has no affect on revenues in 12 states. One state, Kentucky, had no legislative session this year.

Table 5
STATE RESPONSE TO PERSONAL INCOME TAX "WINDFALL" DUE TO FEDERAL TAX REFORM, FISCAL 1988

Return Windfall	Keep Windfall	Keep Portion of Windfall
Arizona	Alabama	Colorado
California	Idaho	Maryland
Connecticut	Illinois	
Delaware*	Indiana	
Georgia	Kansas	
Hawaii	Louisiana	
Iowa	Massachusetts	
Maine	Mississippi	
Minnesota	Missouri	
New York	Montana	
Ohio	New Mexico	
Oregon	North Carolina	
Virginia	Oklahoma	
West Virginia	Utah	
Wisconsin		
Pending		**Not Applicable**
Michigan		Alaska
		Arkansas
		Florida
		Nebraska
		Nevada
		New Hampshire
		New Jersey
		North Dakota
		Pennsylvania
		Rhode Island
		South Carolina
		South Dakota
		Tennessee
		Texas
		Vermont
		Washington
		Wyoming

* Delaware will give all revenue back for TY88. For TY87, keeping $17 million and returning $7 million.

Kentucky did not meet in regular legislative session in 1987.

Taxpayer Scorecard

Amount of windfall revenue to be returned to taxpayers:	$4,596 million
Amount of windfall revenue to be kept by state:	$1,054 million
Amount not yet determined:	$ 286 million

Total Fiscal 1988 revenue windfall: $5,936 million

STATES RETURNING 81% OF WINDFALL

Many states will experience the same windfall effect on the corporate income tax side, because states also rely on the federal corporate tax base. Determining a windfall revenue estimate for state corporate income taxes may be even more difficult than for personal income taxes; however, the dollar amounts are significantly smaller. Estimates for the fiscal 1988 corporate windfall are $0.6 billion, with states returning a little less than half of the windfall to corporate taxpayers. However, California's figures are not included in this analysis because of the substantial differences between their corporate tax code and the federal one.

Landmark Year for State Tax Reform. States were forced to focus on the windfall issue raised by federal tax reform, giving Governors and legislators an opportunity to closely examine their income tax codes. States were given very little time to institute tax studies, develop policy alternatives, and adopt changes, since tax codes needed to be altered retroactively to January 1987 to match the federal timeline. Consequently, 22 states and the District of Columbia significantly revamped their personal income tax code by broadening their tax base, increasing personal exemptions and standard deductions, altering the number of tax brackets, and lowering tax rates.

Many state codes were in great need of reform primarily because of the effects of inflation. Over the past decade, few states have readjusted taxable income levels and exemptions to counterbalance the shifting of the tax burden due to inflation. This meant that more and more low-income people became liable for taxes as the value of personal exemptions and standard deductions eroded. In the meantime, inflation forced many middle-income taxpayers into higher tax brackets, creating "bracket-creep." In summary, by not adjusting for the changes caused by inflation, the state tax burden shifted to rest more heavily on the low- and middle-income taxpayer. Now, with major tax reform this year, there will be a realignment of the tax burden and upper- and upper-middle income taxpayers, primarily those who heavily rely on itemized deductions and other tax preferences, will bear a higher share of the tax load. This tax shift will also occur at the federal level, making income taxes more progressive.

Table 6 shows what policies each state selected to reform their personal income tax code.

Increasing Basic Exemptions. To date, 16 states have substantially raised personal exemptions and 17 states have increased standard deductions, effectively taking many lower-income taxpayers off the state tax rolls. This also includes Idaho, Missouri, North Dakota, Rhode Island, South Carolina, and Vermont, because they are tied automatically to the personal exemption and/or standard deduction in the federal code. Since increases for these exemptions are scheduled for the federal income tax code, these states will also adopt the increases in their tax codes.

By increasing the base exemptions granted to all taxpayers, lower-income taxpayers gain the most benefits – because it represents a larger share of their income. For example, 125,000 low-income families were removed from tax rolls in Minnesota, while Oregon has removed 20,000 lower-income individuals.

Appendix Table A-12 provides personal exemption and standard deduction information.

Reducing Top Tax Rates. One of the major changes that has occurred as a result of tax reform is the substantial lowering of top marginal rates. When a state has multiple tax rates, the top marginal rate is the rate applied to the highest income level. Since there is

Table 6
SUMMARY OF STATE TAX REFORM, 1987

State and Region	Increased Personal Exemption	Increased Standard Deduction	Changed Number of Tax Brackets	Lowered Tax Rates	Other
New England					
Connecticut					
Maine					Credit*
Massachusetts					
New Hampshire					
Rhode Island	X	X			
Vermont	X	X			
Mideast					
Delaware	X	X	X	X	
Dist. of Col.	X	X	X	X	
Maryland	X	X			Credit*
New Jersey					
New York	X	X	X	X	
Pennsylvania					
Great Lakes					
Illinois					
Indiana					
Michigan*					
Ohio				X	
Wisconsin		X	X	X	
Plains					
Iowa					
Kansas					
Minnesota	X	X	X	X	
Missouri		X			
Nebraska			X	X	
North Dakota	X	X			
South Dakota					
Southeast					
Alabama					
Arkansas	X				
Florida					
Georgia	X				
Kentucky					
Louisiana					
Mississippi					
North Carolina					
South Carolina	X	X	X		
Tennessee					
Virginia	X	X			
West Virginia	X		X	X	
Southwest					
Arizona					Deduction*
New Mexico					
Oklahoma					
Texas					
Rocky Mountain					
Colorado	X	X	X	X	
Idaho	X	X	X		
Montana					
Utah	X	X			
Wyoming					
Far West					
California	X	X	X	X	
Nevada					
Oregon		X	X	X	
Washington					
Alaska					
Hawaii		X	X	X	
Total States	16	17	12	11	3

SOURCE: National Association of State Budget Officers

*** NOTES TO TABLE 6**

Arizona	Created a new general deduction for one-year so state would not realize windfall gains.
Maine	Created a new general credit so state would not realize windfall gains.
Maryland	Created a new low-income credit.
Michigan	Action pending.

now little difference in these rates from state to state, the effect will be to reduce the impact of interstate tax competition.

Thus far, 11 states have lowered the top tax rate and one other state has legislation pending. Two of the most dramatic drops were in New York, where the top rate of 13.5 percent was cut down to 7 percent, and in Minnesota, where the rate was reduced from 14 percent to 8 percent.

Most states appear to be trying to bring the top rate below 10 percent. In fact, of the 40 states with a broad-based income tax, only four states now have top marginal rates of 10 percent or more. Most top rates range between 6 percent and 9 percent.

Currently, Iowa has the highest marginal tax rate in the country at 13 percent, followed by Montana at 11 percent.

Fewer Tax Brackets. Coinciding with declining rates is the decrease in the number of tax brackets. Ten states so far have followed the federal government's lead in decreasing the number of income brackets.

The most impressive examples are West Virginia, which reduced the number of brackets from 17 to five, Minnesota which cut its brackets from 16 to two, and New York from 13 to two. Colorado switched from 11 brackets to a flat tax rate, joining the five other states that already have one rate for all taxpayers, regardless of income level.

On the other hand, Idaho and Nebraska have expanded the number of brackets. Currently, states with the greatest number of brackets are Iowa with 13 and Missouri and Montana, both with 10 brackets.

A complete summary of state personal income tax rates and brackets for tax years 1986 and 1987 is contained in Appendix Table A-13.

Special State Provisions for Capital Gains. As a part of tax base broadening, the federal government opted to eliminate the 60 percent exclusion for capital gains. Most states automatically adopted this controversial change when they updated their codes to match the new federal code. However, several states decided to retain this special provision. These states include: Connecticut, Idaho, Iowa, Kentucky, Maryland, and Wisconsin. In addition, Hawaii and Massachusetts have retained a capital gains exclusion, but it differs slightly from the previous federal one. It is anticipated that some changes are expected to occur in several of these states in the near future.

An unusual twist has occurred in Arkansas. Currently, Arkansas income tax law does not conform to any significant degree to the federal code and did not contain a

preferential tax exclusion for capital gains. However, this past session, the legislature passed a law to adopt preferential treatment beginning in 1989.

State Tax Changes. Just as important as all the tax activity surrounding state tax reform, selected states chose to substantially raise taxes during the 1987 legislative sessions. Actions taken this year will increase net tax levels by $6.1 billion for fiscal 1988 – one of the largest aggregate tax increases recorded. In recent years, the only time this amount was surpassed was during the 1983 legislative session, when states lawmakers were grappling with a severe economic recession. At that time, taxes were increased by $7.4 billion and when the recovery took hold, many states proceeded to lower tax levels.

One of the principle reasons for unusually large aggregate tax increases is that Texas and Florida passed large tax packages this year. Together, they account for $3.3 billion of the total, or half of the dollars raised. However, significant tax increases also occurred in Indiana, Minnesota, Missouri, and Oklahoma. In summary, 33 states raised taxes $6.6 billion and six states lowered taxes by $0.5 billion, netting an aggregate increase of $6.1 billion. These figures exclude California, which retroactively reduced fiscal 1987 revenues by approximately $1.1 billion to avoid exceeding their expenditure limitation.

Table 7 shows states that increased or decreased tax levels this year, the type of tax that was altered, and the net dollar amount of tax changes by state. Appendix Table A-14 provides in detail the tax changes that occurred. States that retained the windfall are categorized as states with tax increases, while states that returned the income tax windfall are not counted as tax decreases because their tax levels were unchanged or revenue neutral.

Aside from the changes made in state personal income taxes, sales tax increases were on the top of the tax agenda in several states. The most notable event occurred in Florida, where most personal and professional services are now liable for sales taxes. This new law will bring in just over $700 million in new revenue under the state's 5 percent sales tax.

Professional services presently taxed include those provided by lawyers, accountants, and consultants, and personal services, such as for dry cleaning, health clubs, landscaping, and auto repairs. Medical services remain exempt. However, most national attention has been focused on the taxation of advertisers and the collection of use taxes for business transactions that occur outside Florida's borders, but that are purchased and used by Florida residents. Florida has called a special session in September and because of extreme political pressure placed on the governor, he has stated his intention to try to repeal the tax.

Passing this kind of legislation is very difficult because of the wide range of opposition from affected groups. This past year, eight other states seriously attempted to incorporate services into their tax base, but the attempts failed. Only Hawaii, New Mexico, and South Dakota now tax most personal and professional services.

In other sales tax action, Texas, where the sales tax was scheduled to decrease to 4.125 percent, instead raised the sales tax to 6 percent. North Dakota raised its sales tax from 5 percent to 5.5 percent; Oklahoma from 3.25 percent to 4 percent; South Dakota raised the sales tax for one year to 5 percent; and Utah, from 4.625 percent to 5.125 percent. Idaho and Vermont made a temporary tax hike permanent. Arkansas, Minnesota, and Texas broadened the tax base to include some additional goods and services to raise more revenue.

Table 7
1987 TAX CHANGES
(as of Sept. 15, 1987)

State and Region	Personal Income Tax	Business Taxes	Sales Tax	Motor Fuel Tax	Cigarette Tax	Amount of Net Revenue Increase/Decrease FY 1988 ($ in millions)
New England						
Connecticut						
Maine						
Massachusetts	W/R	W				111
New Hampshire						
Rhode Island	R	W				(12)
Vermont	R		P*			(2) *
Mideast						
Delaware				X		9
Dist. of Col.						
Maryland	W	W		X		186
New Jersey		W			*	Negligible
New York	R					(335) *
Pennsylvania		R				(68)
Great Lakes						
Illinois	W	W				164
Indiana	W/X	X			X	348
Michigan						
Ohio				X	X	232
Wisconsin	R			X	X	(35)
Plains						
Iowa		W				25
Kansas	W					143
Minnesota		X	X		X	289
Missouri	W	W		X		293
Nebraska		W			X	Negligible
North Dakota	X		X	X	X	73
South Dakota			X			43
Southeast						
Alabama	W					Negligible
Arkansas	X		X			52
Florida		W	X			777 *
Georgia						
Kentucky						
Louisiana	W					24
Mississippi	W			X		N/A
North Carolina	W	W/X				185
South Carolina		W*		X		79
Tennessee						
Virginia						Negligible
West Virginia						
Southwest						
Arizona						
New Mexico	W/X	W		X		117
Oklahoma	W		X	X	X	399
Texas			X/P	P	X	2,518
Rocky Mountain						
Colorado	W	W/X				164
Idaho	W	W/X	P		X	76
Montana	W/X	W/X		X		65
Utah	W		X	X	X	161
Wyoming						
Far West						
California	R*					*
Nevada				X	X	46
Oregon				X		16
Washington						
Alaska						
Hawaii						

SOURCE: National Association of State Budget Officers

Total Increase = $6,595
Total Decrease = $ 452

* NOTES TO TABLE 7

KEY:

W - Kept all or part of windfall/increased taxes
R - Reduced taxes
X - Increased Taxes
P - Made temporary tax permanent

NOTE: For those states that returned the personal and corporate income tax windfall to the taxpayers, the returning of the windfall was not counted as a tax decrease, because by doing so they kept their tax code revenue neutral.

California	The legislature passed in the 1987 session a one-time, 15% personal income tax rebate that reduces FY 87 revenues by $1.1 billion to avert exceeding their expenditure limitation. This figure affects the prior year's revenues and not FY 88. The bill currently awaits the Governor's signature.
Florida	At publication time, Florida is meeting in special session, which may alter some tax decisions made earlier in regular session.
New Jersey	Automatically raised cigarette tax because the tax rate is linked to the price of cigarettes.
New York	Figures are for TY 1987.
South Carolina	For TY 1989 and thereafter, the corporate income tax windfall will be returned to corporate taxpayers.
Vermont	A sales tax increase was passed in 1982 and was set to expire in 1987. The state maintained the rate. The revenue increase is not included in the tax amount shown.

Personal income tax increases (aside from those states that kept the income tax "windfall") include Montana and North Dakota, which both placed temporary 10 percent surcharges on personal income tax liability; Indiana, which raised the rate from 3 percent of adjusted gross income to 3.4 percent; and Arkansas and New Mexico, which altered some tax preferences for net revenue gains.

Motor fuel excise taxes were popular in 1987 legislative sessions. Fifteen states raised gasoline taxes, with four of those states enacting multi-year increases. Twelve states hiked cigarette excise taxes, with Minnesota now having the highest tax in the country at 38 cents a pack. Appendix Table A-14 lists states that raised these taxes and the old and new tax rates.

Taxes were cut in only a handful of states. The largest tax cut was New York's $4.5 billion, four-year personal income tax reduction; it consists of returning $2.3 billion of the tax "windfall," plus an additional $2.2 billion to its taxpayers. Rhode Island, Vermont, and Wisconsin also reduced income taxes. Massachusetts will be required this year to return $29 million of personal income taxes because its revenue limitation, which was just passed last year, was triggered. However, the net increase in personal taxes results because Massachusetts retained its windfall tax. A similar situation occurred in California with its expenditure limitation, whereby the state will rebate $1.1 billion of last year's revenues. It is unknown at this time if the limitation will effect fiscal 1988.

There was not much activity on the corporate income tax side, other than decisions to retain or return the windfall revenues.

III. YEAR-END GENERAL FUND BALANCES

The size of the aggregate ending balance of state general funds is a good barometer to measure the fiscal health of the states. Sometimes the size of the ending balance for an individual state can be misleading, but when tallied together they provide a good indication of the economic fortune of states.

Wall Street bond analysts use 5 percent as the ending benchmark to determine the fiscal condition of a state. This 5 percent reserve acts as a cushion against unexpected expenditure and revenue fluctuations. Clearly, states will not meet this fiscal target in the near future.

Since 1985, year-end balances have been declining slightly every year. For fiscal 1987, the estimated ending balance is $3.5 billion, which equals 1.6 percent of expenditures. For fiscal 1988, the corresponding figures are $3.0 billion, or 1.3 percent. Great differences exist between the states. Three states are ending 1987 with deficits – Alaska, Louisiana, and Texas – all oil-producing states that experienced economic shock when oil prices plunged about a year and a half ago. In Louisiana and Texas, the deficit equaled more than 10 percent of expenditures, and Texas was forced to go to the short-term bond market to assist with cash flow problems. In fact, if Texas were excluded from aggregate ending balance figures, the fiscal 1987 total would rise to $4.5 billion.

Three states also expect deficits in fiscal 1988 – Alaska, Louisiana, and West Virginia. In the case of Louisiana, the state has adopted a four-year plan to erase the deficit using oil and gas bonuses and other windfalls.

On the positive side, three states are reporting fiscal 1987 ending balances of more than 10 percent, including Oregon, Vermont, and Wyoming. For Wyoming, this size balance is short-lived and decreases substantially in the next year. In fiscal 1988, the highest balances can be found in Kansas, Nebraska, and New Hampshire. Despite balances below the national average, three states – California, Illinois, and New Jersey – hold more than half of the aggregate balance in fiscal 1988.

Table 8 provides the historical background for aggregate state year-end balances since fiscal 1978. The high point in ending balances came in fiscal 1 980 when balances equaled 9 percent of expenditures. The low point occurred in fiscal 1983 when balances dipped to only 1.3 percent of spending. If the fisca l 1988 ending balance figure is not

Table 8
SIZE OF GENERAL FUND YEAR-END BALANCES, FISCAL 1978 TO 1988*

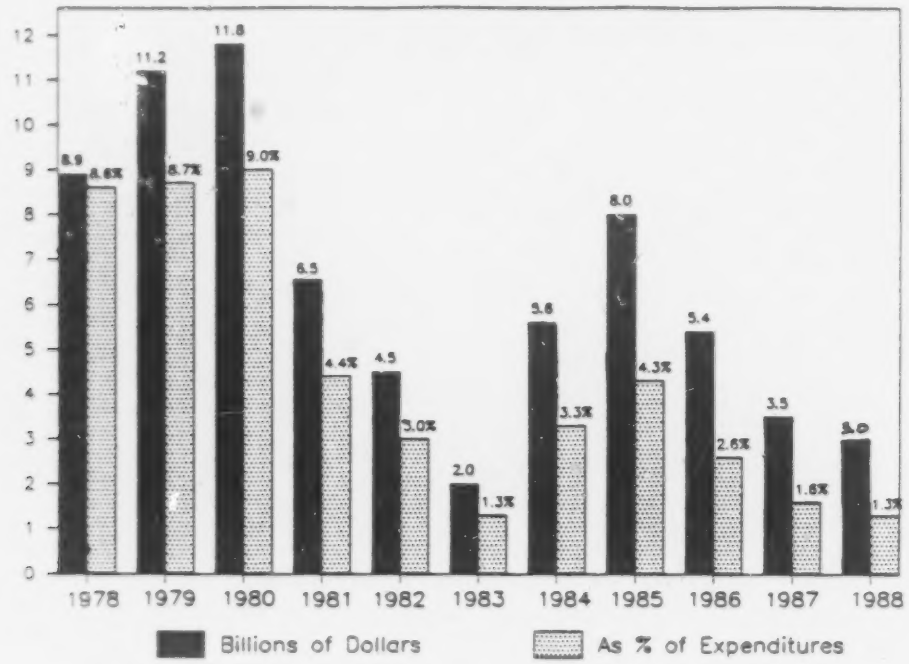
Fiscal Year	*Year-End Balances ($ in Billions)*	*Balance as a Percent of Expenditures*
1988 est.	$3.0	1.3%
1987 est.	3.5	1.6
1986	5.4	2.6
1985	8.0	4.3
1984	5.6	3.3
1983	2.0	1.3
1982	4.5	3.0
1981	6.5	4.4
1980	11.8	9.0
1979	11.2	8.7
1978	8.9	8.6

* Does not include balances from budget stabilization funds.

altered over the next few months, this year will match the 1983 low point recorded since this survey began compiling data in 1977 (see Graph 2).

Graph 2

Size of General Fund Year-End Balances,
Fiscal 1987 to 1988



Only 14 states in 1987 and 8 states in 1988 will have ending balances over the 5 percent level as recommended by Wall Street investments bankers (see Table 9). In fact for the current fiscal year, almost half of the states are operating with balances of 1 percent or less. These small margins will provide no cushion for erroneous revenue or expenditure estimates, or for any unplanned dip in the economy.

Table 9
GENERAL FUND YEAR-END BALANCES AS A PERCENTAGE OF EXPENDITURES

	Fiscal 1987 (Estimated)	*Fiscal 1988 (Appropriated)*	*Fiscal 1989 (Appropriated)*
1% or Less	16	24	6
1%-3%	11	11	4
3%-5%	9	7	2
Over 5%	14	8	4
Total States	50	50	16*
Average Percentage	1.6%	1.3%	1.6%

* States with biennial budgets.

Budget Stabilization Funds. In recent years, thirty-six states have adopted budget stabilization or "rainy day" funds to help buffer state finances from the sharp fiscal disruptions routinely caused by the business cycle. Rather than cut budgets and raise taxes during the middle of a fiscal year, states can theoretically use these special reserves during a economic emergency. However, for this to work, states must accumulate sufficient funds during good economic times.

As with state ending balances, budget stabilization funds are small. The latest projections shows:

- Fiscal 1987 figures show stabilization funds of $1.9 billion or 0.9 percent of expenditures.
- Fiscal 1988 figures show funds increasing marginally with $2.3 billion appropriated, which equals 1.0 percent of expenditures.

The newest states to adopt such funds are Nevada and Vermont. Despite their popularity, there are still seven states that created "rainy day" funds but have not yet had the opportunity to fund them. Seven other states merge their budget stabilization funds with their ending balances, which for all practical purposes, function exactly like an ending balance.

The largest draw-down of a stabilization fund recently has occurred in Alaska, which used $436 million from its fund for the fiscal 1987 budget. Wyoming also substantially relied on its fund to keep its budget balanced. Significant increases in funding have occurred in Florida, which will increase from $58 million in 1987 to $483 million by 1989, and in Connecticut, which has risen from $198 million in 1986 to $320 million in 1987.

Most other state budget stabilization funds remain fairly constant in size. Unfortunately, only five states have reserves of 5 percent or more in fiscal 1988. These states are Connecticut, Delaware, Michigan, Nevada, and Wyoming. With amounts lower than this, it would be difficult for states to mitigate recessionary periods. Clearly, small

funds can help relieve less serious fiscal conditions, but states will still be unprepared for an extended economic downturn.

Budget stabilization funds should not be combined with ending balances because they serve different purposes. The ending balance provides a hedge against normal revenue and expenditure forecasting errors. A budget stabilization fund is usually designed to alleviate revenue shortfalls caused by economic downturns. Nevertheless, both should be viewed as resources available to a state.

IV. REGIONAL FISCAL OUTLOOK

The good news is that the economy of the Northeastern states seems to be growing ever stronger. Throughout the summer, the media have been carrying stories about how typical minimum wage jobs have been replaced with substantially higher wages to lure more people into the labor force because there are more jobs available than workers to fill them. Unfortunately, the rest of the nation is not sharing in this remarkable Northeastern economy. The bad news is that energy-based states are still witnessing higher than average unemployment rates, with Alaska and Louisiana leading the unemployment ranks with double-digit figures.

New England. As Table 10 illustrates, the New England region clearly leads the nation with the strongest economy. New England has the lowest unemployment rates of 3.2 percent, compared to the national average of 6.3 percent in June 1987. Once again, New Hampshire has the lowest state unemployment rate of 2.5 percent, while Massachusetts showed the greatest per capita personal income increase of 8.1 percent in 1986. Indeed, few states can come close to matching these enviable economic indicators.

Mideast. The Mideast region comes in strong in second place, also demonstrating a robust economy. This region also shows a low unemployment rate coupled with high personal income growth, while registering the highest general fund budget increases for fiscal 1988. In real terms, the newly enacted budgets will grow an average of 3.9 percent, which is three times higher than the 1.1 percent national average. For this region, Delaware records the largest real increase at 7.0 percent, followed by New Jersey at 5.6 percent.

New England and Mideastern states were the only regions reporting no budget cuts for the prior budget year. A few of these states enacted some relatively minor tax increases, but more important, three out of the four states that lowered taxes in the last legislative session are located in these regions. The most significant tax decrease package was adopted by New York, which will lower personal income taxes by $2.2 billion over four years. This figure excludes the additional dollars returned to taxpayers by distributing the windfall from federal tax reform.

Great Lakes. The Great Lakes region is just beginning to show signs of fiscal stress and will be an area to watch over the next year for a possible shift in fiscal position. Illinois, Indiana, and Ohio all raised taxes substantially this year, and in Illinois an even larger tax

Table 10
REGIONAL BUDGET AND ECONOMIC INDICATORS

	*Unemployment Rate June 1987 (Projected)**	*Annual % Change in Per Capita Personal Income 1986***	*FY88 Ending Balances as % of Expenditures*	*FY88 Real Budget Growth (%)*	*Cut FY87 Budgets (# States)*	*Net Increase in Taxes For FY88 (# States)*	*EXHIBIT: # States in Region*
New England	3.2	7.7	1.0	2.9	0	1	6
Mideast	4.9	6.6	1.0	3.9	0	2	5
Great Lakes	7.4	5.4	1.8	- 1.1	2	3	5
Plains	5.0	5.7	2.9	1.4	6	6	7
Southeast	6.5	5.4	- 0.7	2.3	6	5	12
Southwest	9.0	0.8	2.2	- 0.9	4	3	4
Rocky Mountain	7.3	3.6	3.0	0.9	4	4	5
Far West	5.7	5.4	2.6	- 1.3	2	2	6
U.S. Average (or total)	6.3	5.3	1.3	1.1	24	31	50

Source:

* U.S. Department of Labor, Bureau of Labor Statistics, August 18, 1987.

** U.S. Department of Commerce, Bureau of Economic Analysis, August 20, 1987.

package was proposed but not passed. However, the issue of additional hikes in Illinois may be revisited later in 1987. The important news in this region is that despite revenue increases, real fiscal 1988 spending is decreasing 1.1 percent. The unemployment rate is more than a percentage point higher than the national average, and the fate of these states' economies rests heavily with the manufacturing sector – particularly automobiles. Sluggish car sales, high inventories, and a possible strike of auto companies may have negative effects on fiscal 1988 revenues for the Great Lake states.

Plains. Six out of the seven Plains states had to make mid-year budget adjustments in fiscal 1987, resulting in budget cutbacks. All of these states except for North Dakota, made relatively minor to moderate cuts in operations, with North Dakota cutting over 5 percent. Six states raised taxes this year, with large dollar increases in Minnesota and Missouri. North Dakota had one of the largest tax increases as a proportion of taxes raised over total tax collections. This state was especially hard hit by the soft oil, gas, and coal markets.

The farm sector plays a major role in these states and has been depressed for several years. Although these states have adjusted to the farming situation, the poor performance of this sector continues to take its toll on state finances.

Southeast. Once again, two divergent fiscal trends are emerging from this region. Several Southeastern states have some of the weakest economies, while other states have some of the strongest. Georgia, North Carolina, Tennessee, and Virginia all record higher than average growth in per capita income, while Louisiana actually registers a decline in per capita income. Unemployment rates are unusually high in Louisiana at 11.2 percent; Mississippi, at 9.8 percent; and Kentucky and West Virginia, both at 9.1 percent.

Table 9 indicates that a deficit exists in fiscal 1988 ending balances because two states – Louisiana and West Virginia – are posting deficits, while most of the other states have ending balances of zero. Clearly, Louisiana remains the most fiscally distressed state in the Southeast and is experiencing problems identical to those of the Southwestern states -- i.e., a devastated, but recovering oil industry. However, any fiscal problems experienced in Florida, Georgia, North Carolina, or Virginia will most likely be attributed to population growth and/or growing demand for more services. Expansion pains are always more welcome than cutback management situations.

Southwest. By almost all indicators, this region is the weakest region in the country. Three of the four states, with Arizona as the exception, depend heavily on the oil and gas industries. About a year and a half ago, the price of oil dropped precipitiously from $25 - $27 per barrel to $10. Since this dramatic price drop, the price has been fluctuating between $17 to $23 per barrel. Despite the better prices, oil is still an unpredictable commodity with a world oil glut on one hand, and perilous international events in the Persian Gulf on the other. If the attempts by the United States to ensure safe oil shipping lanes fail, it is inevitable that the price of oil will rise. While this will be a blow to oil purchasers, oil producers, including those in the Southwest, will benefit.

Even though oil prices appear somewhat stable, New Mexico, Oklahoma, and Texas all raised taxes substantially for fiscal 1988. Most notable is Texas, which increased the sales tax to cover a potential multi-billion biennial deficit. For fiscal 1988 alone, Texas hiked tax levels by over $2.5 billion.

On the budget side, all four states made sizable cuts in the prior year's budget. The regional budget increase in real terms actually declines by 0.9 percent, indicating that these states are holding the line on spending for the near future.

Other economic indicators show that the Southwest has the highest unemployment rate and the lowest per capita personal income growth. If the price of oil holds, many oil companies will begin to rehire employees, begin new exploration for wells, and start to purchase goods and services necessary to conduct business.

Rocky Mountain. Problems similar to those experienced by Southwestern states also plague the Rocky Mountain region. All of these states have oil-producing sectors, and in addition, many also rely on coal production. To compound matters, these states also have large agricultural sectors.

All states but Wyoming raised taxes this year, while all states but Idaho cut last year's enacted budgets. The fiscal outlook for this region in the upcoming year remains lethargic, although it appears that the hardest times are behind. Moderate improvement is anticipated.

Far West. This region is dominated by California, which has the largest economy of all the states and which surpasses most foreign countries. California's unemployment rate is almost a full percentage point above the national average, however, personal income growth is very close to the average. The economy is performing at a moderate growth rate, but fiscal 1988 spending represents a real decrease in spending after inflation has been accounted for. This decrease is more of a result of California's expenditure limitation, which took effect for the first time this year, than of a changing economy. Consequently, California budget figures can mask actions in other parts of the region.

Oregon and Washington are also experiencing moderate growth and have budgeted frugally for fiscal 1988. Hawaii and Nevada have growing economies, with Hawaii reporting real fiscal 1988 budget growth of 2.7 percent and Nevada reporting real fiscal 1987 budget growth at 17.5 percent, mostly attributed to several one-time expenditures.

Alaska's fiscal picture is considerably dimmer than that of her regional sisters. The fiscal 1988 budget has decreased by 17 percent in real terms, unemployment is at 11.2 percent, and the state recorded the largest decrease in per capita personal income at -3.5 percent. More than any other state, Alaska's fiscal fortunes are tied to the price of oil.

APPENDIX

The structure of the survey presumes budgeting identities as follows:

1. Beginning Balance + Revenues + Adjustments = Resources

2. Resources - Expenditures - or + Transfers = Ending Balance

3. Ending Balance, Year 1 = Beginning Balance, Year 2

Adjustments to revenues may include such things as reversions, tax refunds, settlement from court cases, surplus property sales, changes in tax collections, and changes in fund dedication. Transfers may be positive or negative, depending on whether monies are flowing in or out of the general fund.

Exceptions to this identity result from rounding numbers and from the practice in a few states of making adjustments between the ending balance in one year and the beginning balance in the next. These exceptions have only a minor impact on the overall results of the survey.

Reporting concepts within this structure vary from state to state, as do definitions of what activities are included in the general fund, although all federal funds and trust funds are usually excluded. If federal funds are excluded, general fund spending comprises about 80 percent of total state spending. Thus, the results of the fiscal survey are not strictly appropriate for comparisons among states. They are more appropriate for comparisons over time within the same state.

Table A-1
FISCAL 1987 STATE GENERAL FUND
($ in millions)
ESTIMATED FIGURES

STATE	BEGINNING BALANCE	REVENUE	ADJUSTMENTS	RESOURCES	EXPENDITURES	TRANSFERS	ENDING BALANCE	BUDGET STAB. FUND
ALABAMA	9	2,535	(6)	2,538	2,537		1	
ALASKA	(74)	1,781	86	1,793	2,396	601	(2)	0
ARIZONA	(16)	2,418		2,402	2,386		16	
ARKANSAS	0	1,461		1,461	1,461		0	
CALIFORNIA	686	32,478	(1,096)	32,068	31,488		580	**
COLORADO	4	2,100		2,105	1,998	(40)	67	**
CONNECTICUT	0	4,877	(85)	4,792	4,425	(367)	0	320
DELAWARE	61	962		1,022	931	(5)	86	50
FLORIDA	186	7,507		7,693	7,788	95	0	58
GEORGIA	47	5,316	50	5,413	5,413		0	213
HAWAII	137	1,751	10	1,898	1,732		165	
IDAHO	1	563	43	607	607		0	0
ILLINOIS	288	10,332		10,620	10,340	(126)	154	
INDIANA	39	3,522	102	3,663	3,373	(189)	101	109
IOWA	8	2,257		2,265	2,186		79	**
KANSAS	20	1,780		1,800	1,727		73	
KENTUCKY	209	2,871	15	3,095	2,958		137	21
LOUISIANA*	(202)	3,767	(307)	3,258	3,836	188	(390)	
MAINE	1	1,109	3	1,122	1,048	(42)	32	25
MARYLAND	53	4,499		4,552	4,452	(50)	50	50
MASSACHUSETTS	333	6,815	70	7,218	6,830	(348)	40	102
MICHIGAN	153	6,159	47	6,358	6,316		43	372
MINNESOTA	370	5,272	11	5,653	5,267	(117)	269	**
MISSISSIPPI	52	1,566		1,618	1,548		70	6
MISSOURI*	37	3,231	73	3,341	3,341		0	0
MONTANA	16	346	35	397	395	8	10	
NEBRASKA	18	886		904	849		55	24
NEVADA	85	529	12	625	577	2	51	
NEW HAMPSHIRE	32	530		562	488	(27)	48	27
NEW JERSEY	521	9,145	(23)	9,643	9,142		501	
NEW MEXICO	124	1,321	117	1,562	1,465	(7)	90	**
NEW YORK	153	24,688		24,841	23,453	(1,219)	169	**
NORTH CAROLINA	319	5,216	176	5,711	5,349		362	
NORTH DAKOTA	116	448		562	554		8	
OHIO	458	10,464	7	10,929	10,540	(163)	226	263
OKLAHOMA	0	2,070	(11)	2,059	2,059		0	0
OREGON*	189	1,812		2,001	1,750		251	
PENNSYLVANIA	213	9,803	63	10,079	9,681	(50)	348	52
RHODE ISLAND	52	1,172		1,224	1,118	(10)	97	19
SOUTH CAROLINA*	15	2,693		2,708	2,670	(25)	13	77
SOUTH DAKOTA	31	367		398	366		33	
TENNESSEE	122	2,890		3,012	2,966	30	76	**
TEXAS	(231)	10,783		10,552	8,564	(3,018)	(1,030)	
UTAH	2	1,300	3	1,305	1,281	8	32	20
VERMONT	3	485	9	497	433	(19)	45	9
VIRGINIA	211	4,509	73	4,793	4,703		90	2
WASHINGTON*	102	4,873		4,975	4,767		208	0
WEST VIRGINIA	113	1,532		1,645	1,612		33	
WISCONSIN	237	5,014		5,251	5,063		188	0
WYOMING	106	335		441	395		46	117
TOTAL	5,407	220,140	(523)	225,031	216,624	(4,890)	3,521	1,936
DIST. OF COL.*	(225)	2,494		2,269	2,358	(121)	(210)	

** Budget Stabilization Fund is included with ending balance.

NOTES TO TABLE A-1, FISCAL 1987 STATE GENERAL FUND

Figures may not add due to rounding. For explanation of adjustments and transfers, see Appendix footnotes. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

* Notes

Dist. of Col.	Cumulative balances include pre-home rule deficits. Other figures are annual. Budget is as revised by Mayor and City Council; the U.S. Congress has not yet acted on revision.
Louisiana	Bonuses and windfall revenues are dedicated to the deficit elimination fund. Estimated reversions are not included in figures.
Missouri	Does not reflect cash operating reserve fund in excess of $147 million.
Oregon	Prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium, and 52 percent for the second year.
South Carolina	Ending balance includes reserve to be carried forward and $2 million designation of surplus for local governments. The budget stabilization fund includes $2 million from capital expenditure fund.
Washington	Ending balance is transferred to revenue accrual account which is dedicated to pension funding.

Table A-2
FISCAL 1988 STATE GENERAL FUND
($ in millions)
APPROPRIATED FIGURES

STATE	BEGINNING BALANCE	REVENUE	ADJUSTMENTS	RESOURCES	EXPENDITURES	TRANSFERS	ENDING BALANCE	BUDGET STAB. FUND
ALABAMA	1	2,699	(6)	2,694	2,694		0	
ALASKA	(2)	1,713		1,711	2,077	96	(270)	0
ARIZONA	16	2,607		2,624	2,610		14	
ARKANSAS	0	1,558		1,558	1,558		0	
CALIFORNIA	580	33,278		33,858	32,772		1,086	**
COLORADO	67	2,212		2,278	2,107	(40)	131	**
CONNECTICUT	0	5,057	(110)	4,947	4,917	(30)	0	320
DELAWARE	86	982		1,068	1,041	10	37	53
FLORIDA	0	8,743		8,743	8,629	(114)	0	255
GEORGIA	0	5,782		5,782	5,782		0	231
HAWAII*	165	1,805	10	1,980	1,860		121	
IDAHO	0	586	71	657	657		0	0
ILLINOIS	154	10,584	143	10,881	10,552	(129)	200	
INDIANA	101	3,948	20	4,069	3,623	(277)	169	109
IOWA	79	2,326	(20)	2,386	2,372		14	**
KANSAS	73	1,953		2,026	1,866		160	
KENTUCKY	144	3,077	9	3,230	3,217		13	25
LOUISIANA*	(390)	4,248	(444)	3,414	3,866	80	(372)	
MAINE	32	1,152	3	1,187	1,164	(3)	20	15
MARYLAND	50	4,846		4,896	4,872	(5)	18	55
MASSACHUSETTS	40	7,287	(29)	7,298	7,067	(188)	43	102
MICHIGAN	43	6,436		6,479	6,464		14	397
MINNESOTA*	269	5,490	12	5,771	5,446	(144)	181	**
MISSISSIPPI	70	1,544		1,614	1,613		1	6
MISSOURI*	0	3,567	58	3,625	3,625		0	0
MONTANA	10	373		383	372	1	11	
NEBRASKA	55	924		979	917		62	25
NEVADA*	51	583	4	637	586	(40)	12	40
NEW HAMPSHIRE	48	541		589	546	(1)	42	27
NEW JERSEY	501	9,855		10,356	10,087		269	
NEW MEXICO	90	1,428	67	1,585	1,514	5	77	**
NEW YORK	169	27,160		27,329	25,275	(1,869)	185	**
NORTH CAROLINA	362	5,616		5,978	5,978		0	
NORTH DAKOTA*	8	516		524	518		6	
OHIO	226	10,834		11,060	10,904		156	263
OKLAHOMA	0	2,320		2,320	2,203		117	0
OREGON*	251	1,623		1,873	1,792		81	
PENNSYLVANIA	348	10,169	(10)	10,507	10,461	(45)	1	80
RHODE ISLAND	97	1,195		1,292	1,245	(21)	26	29
SOUTH CAROLINA*	13	2,866		2,879	2,864	(14)	0	112
SOUTH DAKOTA	33	377		410	396		13	
TENNESSEE	76	3,058		3,134	3,032	(26)	76	**
TEXAS	(1,030)	12,037	(705)	10,302	8,672	(1,630)	0	
UTAH	32	1,358		1,390	1,371	(19)	0	39
VERMONT	45	472	3	519	490	(1)	29	10
VIRGINIA	90	4,885	73	5,048	5,046		2	28
WASHINGTON	44	5,076		5,120	4,984		136	0
WEST VIRGINIA	33	1,464		1,497	1,520		(22)	
WISCONSIN	188	5,244		5,432	5,308		124	0
WYOMING	46	316		362	426	72	8	40
TOTAL	3,364	233,770	(851)	236,281	228,958	(4,332)	2,991	2,261
DIST. OF COL.*	(210)	2,591		2,381	2,484	(107)	(209)	

** Budget Stabilization Fund is included with ending balance.

NOTES TO TABLE A-2, FISCAL 1988 STATE GENERAL FUND

Figures may not add due to rounding. For explanation of adjustments and transfers, see Appendix footnotes. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

* Notes

Dist. of Col.	Cumulative balances include pre-home rule deficits. Other figures are annual.
Hawaii	Does not include collective bargaining costs for school teachers, which were still being negotiated at press time.
Louisiana	Bonuses and windfall revenues are dedicated to the deficit elimination fund. Estimated reversions are not included in figures.
Minnesota	Statute requires that the budget stabilization account be funded at $250 million; however, this is accomplished in fiscal 1989, the second year of the biennium.
Missouri	Does not reflect cash operating reserve fund in excess of $147 million.
Nevada	For accounting purposes the state controller is to designate up to $40 million of the ending balance, if available, for budget stabilization.
North Dakota	Fiscal 1988 expenditures equal 49 percent of total biennial expenditures.
Oregon	Prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium, and 52 percent for the second year.
South Carolina	The budget stabilization fund includes $2 million from capital expenditure fund.

Table A-3
FISCAL 1989 STATE GENERAL FUND
($ in millions)
APPROPRIATED FIGURES

STATE	BEGINNING BALANCE	REVENUE	ADJUSTMENTS	RESOURCES	EXPENDITURES	TRANSFERS	ENDING BALANCE	BUDGET STAB. FUND
ALABAMA								
ALASKA								
ARIZONA								
ARKANSAS	0	1,627		1,627	1,627		0	
CALIFORNIA								
COLORADO								
CONNECTICUT								
DELAWARE								
FLORIDA	0	9,377		9,377	9,206	(171)	0	483
GEORGIA								
HAWAII*	121	1,896	10	2,027	1,889		138	
IDAHO								
ILLINOIS								
INDIANA	169	4,187	30	4,386	3,921	(336)	129	113
IOWA								
KANSAS								
KENTUCKY								
LOUISIANA								
MAINE	20	1,241	3	1,264	1,261	(3)	0	15
MARYLAND								
MASSACHUSETTS								
MICHIGAN								
MINNESOTA	181	5,821	10	6,012	5,606	(155)	251	**
MISSISSIPPI								
MISSOURI								
MONTANA	11	383		394	387		7	
NEBRASKA	62	952		1,014	915		99	26
NEVADA*	12	617	4	632	624		8	40
NEW HAMPSHIRE	42	556		598	570	(1)	29	28
NEW JERSEY								
NEW MEXICO								
NEW YORK								
NORTH CAROLINA	0	6,135		6,135	6,135		0	
NORTH DAKOTA*	6	539		545	539		6	
OHIO	156	11,412		11,568	11,475		93	263
OKLAHOMA								
OREGON*	81	1,959		2,040	1,942		99	
PENNSYLVANIA								
RHODE ISLAND								
SOUTH CAROLINA								
SOUTH DAKOTA								
TENNESSEE								
TEXAS	0	12,161	(744)	11,417	9,919	(1,498)	0	
UTAH								
VERMONT								
VIRGINIA								
WASHINGTON	136	5,154		5,290	5,176		114	0
WEST VIRGINIA								
WISCONSIN*								
WYOMING								
TOTAL	997	64,017	(687)	64,326	61,192	(2,164)	973	968

** Budget Stabilization Fund is included with ending balance.

NOTES TO TABLE A-3, FISCAL 1989 STATE GENERAL FUND

Figures may not add due to rounding. For explanation of adjustments and transfers, see Appendix footnotes. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

* Notes

Hawaii	Does not include collective bargaining costs for school teachers, which were still being negotiated at press time.
Nevada	For accounting purposes, the state controller is to designate up to $40 million of the ending balance, if available, for budget stabilization.
North Dakota	Fiscal 1989 expenditure equal 51 percent of total biennial expenditures.
Oregon	Prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium, and 52 percent for the second year.
Wisconsin	The governor vetoed all appropriation bills for fiscal 1989 that were higher than the fiscal 1988 level.

NOTES TO APPENDIX TABLES A-1, A-2, AND A-3

Explanation of General Fund Budget Adjustments

Alabama	Funds were taken out of the Special Educational Trust Fund up front to pay for Trade School and Junior College Authority Bonds and the administrative cost of the Revenue Department.
Alaska	Fiscal 1987 - Accounting adjustment showing reduction to reserves for outstanding capital projects.
California	Fiscal 1987 - The state appropriations limit, Article XIII of the Constitution, requires that $1,096 million of tax revenues be returned to the taxpayer because the limit was exceeded.
Connecticut	Adjustments comprise refund of taxes and surplus adjustments.
Georgia	Fiscal 1987 - Represents the mid-year adjustment reserve that was established in fiscal 1986 directing the state auditor to set aside up to 1 percent of surplus funds each June 30. These funds are then available to be added to the subsequent budget.
Hawaii	Prior year's appropriation lapses.
Idaho	Fiscal 1987 - Adjustments include temporary sales tax of $5 million; dedicated fund transfer of $9 million; public school fiscal 1986 transfer-out of ($11) million. Fiscal 1988 - Adjustments include sales tax increase made permanent of $48 million; adoption of Internal Revenue Changes of $7 million; income tax rates and quarterly payment increases of $16 million.
Illinois	Fiscal 1988 - Tax ruling in states favor.
Iowa	Fiscal 1988 - GAAP implementation set aside.
Kentucky	Fund transfers into general fund authorized for budget balancing purposes, primarily from capital construction funds.
Louisiana	Special fund dedications.
Maine	Increases operating working capital, windfall reserve, and contingent accounts.
Massachusetts	Fiscal 1987 - Lapse from prior year. Fiscal 1988 - One-time tax limitation refund.
Michigan	Fiscal 1987 - Bonding of prisons already built with revenues previously collected.
Minnesota	Prior year adjustments.
Missouri	Fiscal 1988 - Lapse from prior year.
Montana	Fiscal 1987 - Education trust fund transfer and transfers from other accounts.
Nevada	Reversions of prior appropriations.
New Jersey	Fiscal 1987 - Represents prior year and current year appropriation lapses; revenue for pending supplemental appropriations; and net direct charges and credits to fund balances.
New Mexico	Fiscal 1987 - Non-recurring revenue. Fiscal 1988 - $59 million tax increase; remaining is non-recurring revenue.
North Carolina	Fiscal 1987 - Change in tax collections.
North Dakota	Estimated unexpended 1985-87 general fund appropriations to be turned back to general fund.

Ohio	Fiscal 1987 - Reflects excess lottery transfer.
Oklahoma	Fiscal 1987 - Increase in cash-flow funds from 1987 to 1988.
Pennsylvania	Fiscal 1987 - ($4) million jobs creation tax credit; $60 million prior year lapses; and $7 million disaster assistance increase. Fiscal 1988 ($10) million jobs creation tax credit.
Texas	Includes appropriation riders and rider transfers.
Vermont	Fiscal 1987 - $2 million reversion to general fund; $6 million reversion from special Gramm-Rudman-Hollings Fund. Fiscal 1988 - $3 million reversion to general fund.
Virginia	Transfers from ABC enterprise fund and other non-general fund accounts as required by law.

Explanation of Transfers Into/Out of the General Fund

Alaska	Fiscal 1987 - $427 million transfer from budget reserve to general fund; $174 million administrative and statutory transfers, capital loan, and autonomous funds to general fund. Fiscal 1988 - Transfers from capital and loan funds.
Colorado	Transfer of ($40) million from general fund to the Highway Users Tax Fund.
Connecticut	Transfers from the general fund: ($105) million to Budget Reserve Fund; ($193) million to Education Excellence Trust Fund; ($4) million for AIDS research; ($5) million to Disaster Relief Fund; ($15) million to Municipal Tipping Fees Fund; ($23) million to debt retirement.
Dist. of Col.	Represents net of transfers-in of lottery revenue and transfers-out to enterprise funds.
Florida	Transfers shown are between the General Revenue and the Working Capital Fund. It does not account entirely for the change in the Working Capital Fund.
Illinois	Transfers-out are the statutory percentages of income and sales tax receipts made to other funds and general obligation debt service. Transfers-in include percentage of lottery sales and other reimbursements.
Indiana	Fiscal 1989 - Amounts transferred to property tax replacement fund and ($4) million to budget reserve fund.
Louisiana	For both fiscal years, shows transfers from numerous funds to the general fund. For fiscal 1988, $53 million is also transferred from the Deficit Elimination Fund to the General Fund.
Maine	Unexpended balances from prior year.
Maryland	Transfers to reserve stabilization fund.
Massachusetts	Fiscal 1987 - Transfers to stabilization fund ($102) million; pension reserves ($80) million; to cover deficits in special revenue funds ($179) million; and special expenditure reimbursements from special revenue funds $13 million. Fiscal 1988 - Transfers to cover deficits in special revenue funds ($233) million and $45 million for expenditure reimbursements.
Minnesota	Transfers from general fund to debt service fund, wildlife, and other revolving funds.
New Hampshire	Transfer to budget stabilization fund.
New Mexico	Transfers to and from operating reserve and school support reverse.

New York	Fiscal 1987 - Transfers-in equal $161 million; transfers-out equal $1,380 million. Fiscal 1988 - Transfers-in equal $145 million; transfers-out equal $1,318 million. Principal transfers-out of general fund support debt service and capital projects.
Ohio	Fiscal 1987 - ($55) million reserve for capital projects which are valid through fiscal 1988; and ($108) million reserve for budget stabilization fund. Fiscal 1988 and 1989 - Reflect known lapses in debt service accounts which are required to be appropriated due to provisions in bond trust agreements.
Pennsylvania	Fiscal 1987 - ($25) million to Tax Stabilization Fund and ($25) million to Sunny Day (economic development) Fund. Fiscal 1988 - ($25) million to Tax Stabilization Fund and ($20 million To Sunny Day Fund.
Rhode Island	Fiscal 1987 - $2 million intra-year transfer; $2 million year-end receivables; ($9) million to reserve fund; and ($4) million to asset protection fund. Fiscal 1988 - ($10) million to reserve fund; ($5) million to asset protection fund; and ($6) million tort claims.
South Carolina	Fiscal 1987 - ($7) million to general fund reserve account; ($17) million to general fund reserve from surplus; ($2) million to the capital expenditure reserve.
Texas	Dedicated fund transfers.
Vermont	Fiscal 1987 - ($9) million to rainy day fund; ($10) million for revenue in lieu of bonds provision. Fiscal 1988 - ($1) million to rainy day fund.
Wyoming	Fiscal 1988 - Transfer to the general fund from the budget reserve account.

Table A-4
ENDING BALANCES AS A PERCENT OF EXPENDITURES, FISCAL 1987 TO 1989

STATE	GENERAL FUND ENDING BALANCES			AS A PERCENT OF EXPENDITURES		
	FISCAL 1987	FISCAL 1988	FISCAL 1989	FISCAL 1987	FISCAL 1988	FISCAL 1989
ALABAMA	1	0		0.0	0.0	
ALASKA	(2)	(270)		(0.1)	(13.0)	
ARIZONA	16	14		0.7	0.5	
ARKANSAS	0	0	0	0.0	0.0	0.0
CALIFORNIA	580	1,086		1.8	3.3	
COLORADO	67	131		3.4	6.2	
CONNECTICUT	0	0		0.0	0.0	
DELAWARE	86	37		9.2	3.6	
FLORIDA	0	0	0	0.0	0.0	0.0
GEORGIA	0	0		0.0	0.0	
HAWAII	165	121	138	9.5	6.5	7.3
IDAHO	0	0		0.0	0.0	
ILLINOIS	154	200		1.5	1.9	
INDIANA	101	169	129	3.0	4.7	3.3
IOWA	79	14		3.6	0.6	
KANSAS	73	160		4.2	8.6	
KENTUCKY	137	13		4.6	0.4	
LOUISIANA	(390)	(372)		(10.2)	(9.6)	
MAINE	32	20	0	3.1	1.7	0.0
MARYLAND	50	18		1.1	0.4	
MASSACHUSETTS	40	43		0.6	0.6	
MICHIGAN	43	16		0.7	0.2	
MINNESOTA	269	181	251	5.1	3.3	4.5
MISSISSIPPI	70	1		4.5	0.1	
MISSOURI	0	0		0.0	0.0	
MONTANA	10	11	7	2.5	3.0	1.8
NEBRASKA	55	62	99	6.5	6.8	10.8
NEVADA	51	12	8	8.8	2.0	1.3
NEW HAMPSHIRE	48	42	29	9.8	7.7	5.1
NEW JERSEY	501	269		5.5	2.7	
NEW MEXICO	90	77		6.1	5.1	
NEW YORK	169	185		0.7	0.7	
NORTH CAROLINA	362	0	0	6.6	0.0	0.0
NORTH DAKOTA	8	6	6	1.4	1.2	1.1
OHIO	226	156	93	2.1	1.4	0.8
OKLAHOMA	0	117		0.0	5.3	
OREGON	251	81	99	14.3	4.5	5.1
PENNSYLVANIA	348	1		3.6	0.0	
RHODE ISLAND	97	26		8.7	2.1	
SOUTH CAROLINA	13	0		0.5	0.0	
SOUTH DAKOTA	33	13		9.0	3.3	
TENNESSEE	76	76		2.6	2.5	
TEXAS	(1,030)	0	0	(12.0)	0.0	0.0
UTAH	32	0		2.5	0.0	
VERMONT	45	29		10.4	5.9	
VIRGINIA	90	2		1.9	0.0	
WASHINGTON	208	136	114	4.4	2.7	2.2
WEST VIRGINIA	33	(22)		2.0	(1.4)	
WISCONSIN	188	124		3.7	2.3	
WYOMING	46	8		11.6	1.9	
TOTAL	3,521	2,991	973	1.6	1.3	1.6
DIST. OF COL.	(210)	(209)		(8.9)	(8.4)	

Table A-5
BUDGET STABILIZATION FUNDS, FISCAL 1987 TO 1989

STATE	STABILIZATION FUND BALANCES			AS A PERCENT OF EXPENDITURES		
	FISCAL 1987	FISCAL 1988	FISCAL 1989	FISCAL 1987	FISCAL 1988	FISCAL 1989
ALABAMA						
ALASKA*	0	0		0.0	0.0	
ARIZONA						
ARKANSAS						0.0
CALIFORNIA	**	**				
COLORADO	**	**				
CONNECTICUT	320	320		7.2	6.5	
DELAWARE	50	53		5.4	5.1	
FLORIDA	58	255	483	0.7	3.0	5.2
GEORGIA	213	231		3.9	4.0	
HAWAII						0.0
IDAHO	0	0		0.0	0.0	
ILLINOIS						
INDIANA	109	109	113	3.2	3.0	2.9
IOWA	**	**				
KANSAS						
KENTUCKY	21	25		0.7	0.8	
LOUISIANA						
MAINE	25	15	15	2.4	1.3	1.2
MARYLAND	50	55		1.1	1.1	
MASSACHUSETTS	102	102		1.5	1.4	
MICHIGAN	372	397		5.9	6.1	
MINNESOTA	**	**	**			
MISSISSIPPI	6	6		0.4	0.4	
MISSOURI	0	0		0.0	0.0	
MONTANA						0.0
NEBRASKA	24	25	26	2.8	2.7	2.8
NEVADA		40	40		6.8	6.4
NEW HAMPSHIRE	27	27	28	5.5	4.9	4.9
NEW JERSEY						
NEW MEXICO	**	**				
NEW YORK	**	**				
NORTH CAROLINA						0.0
NORTH DAKOTA						0.0
OHIO	263	263	263	2.5	2.4	2.3
OKLAHOMA	0	0		0.0	0.0	
OREGON						0.0
PENNSYLVANIA	52	80		0.5	0.8	
RHODE ISLAND	19	29		1.7	2.3	
SOUTH CAROLINA	77	112		2.9	3.9	
SOUTH DAKOTA						
TENNESSEE	**	**				
TEXAS						0.0
UTAH	20	39		1.6	2.8	
VERMONT	9	10		2.1	2.0	
VIRGINIA	2	28		0.0	0.6	
WASHINGTON	0	0	0	0.0	0.0	0.0
WEST VIRGINIA						
WISCONSIN	0	0		0.0	0.0	
WYOMING	117	40		29.6	9.4	
TOTAL	1,936	2,261	968	0.9	1.0	1.6

** Budget Stabilization Fund is included with ending balance.

Table A-6
NOMINAL AND REAL ANNUAL CHANGES IN EXPENDITURES, FISCAL 1987 TO 1989

STATE	NOMINAL PERCENTAGE CHANGE			REAL PERCENTAGE CHANGE		
	FISCAL 1987	FISCAL 1988	FISCAL 1989	FISCAL 1987	FISCAL 1988	FISCAL 1989
ALABAMA	-8.4	6.2		-11.6	1.6	
ALASKA	-14.1	-13.3		-17.1	-17.1	
ARIZONA	2.4	9.4		-1.1	4.7	
ARKANSAS	-7.9	6.6	4.4	-11.1	2.0	-0.6
CALIFORNIA	9.2	4.1		5.4	-0.4	
COLORADO	7.0	5.5		3.3	0.9	
CONNECTICUT	10.3	11.1		6.5	6.3	
DELAWARE	0.2	11.8		-3.2	7.0	
FLORIDA	13.8	10.8	6.7	9.9	6.0	1.5
GEORGIA	7.6	6.8		3.9	2.2	
HAWAII	8.1	7.4	1.6	4.4	2.7	-3.4
IDAHO	4.5	8.2		0.9	3.6	
ILLINOIS	3.3	2.1		-0.3	-2.4	
INDIANA	8.0	7.4	8.2	4.3	2.8	3.0
IOWA	2.0	8.5		-1.6	3.8	
KANSAS	-0.9	8.0		-4.3	3.4	
KENTUCKY	9.8	8.8		7.6	4.1	
LOUISIANA	-11.1	0.8		-14.1	-3.6	
MAINE	10.2	11.1	8.3	6.4	6.3	3.1
MARYLAND	7.0	9.4		3.3	4.7	
MASSACHUSETTS	10.5	3.5		6.7	-1.0	
MICHIGAN	5.8	2.3		2.1	-2.1	
MINNESOTA	8.5	3.4	2.9	4.7	-1.1	-2.1
MISSISSIPPI	2.0	4.2		-1.5	-0.3	
MISSOURI	9.3	8.5		5.5	3.8	
MONTANA	7.6	-5.8	4.0	3.9	-9.9	-1.0
NEBRASKA	2.3	8.0	-0.2	-1.2	3.3	-5.1
NEVADA	21.7	1.6	6.5	17.5	-2.8	1.3
NEW HAMPSHIRE	4.1	11.9	4.4	0.5	7.0	-0.7
NEW JERSEY	4.7	10.3		1.1	5.6	
NEW MEXICO	3.6	3.3		0.0	-1.1	
NEW YORK	7.8	7.8		4.1	3.1	
NORTH CAROLINA	7.6	11.8	2.6	3.9	6.9	-2.4
NORTH DAKOTA	5.5	-6.5	4.1	1.9	-10.5	-1.0
OHIO	10.2	3.5	5.2	6.4	-1.0	0.1
OKLAHOMA	0.9	7.0		-2.6	2.4	
OREGON	9.1	2.4	8.4	5.3	-2.0	3.1
PENNSYLVANIA	4.2	8.1		0.6	3.4	
RHODE ISLAND	6.7	11.4		3.0	6.5	
SOUTH CAROLINA	3.0	7.3		-0.5	2.6	
SOUTH DAKOTA	5.8	8.2		2.1	3.5	
TENNESSEE	14.2	2.2		10.2	-2.2	
TEXAS	3.3	1.3	14.4	-0.2	-3.1	8.8
UTAH	0.3	7.0		-3.1	2.4	
VERMONT	11.3	13.2		7.5	8.3	
VIRGINIA	12.9	7.3		9.0	2.7	
WASHINGTON	5.5	4.6	3.9	1.8	0.0	-1.2
WEST VIRGINIA	0.9	-5.7		-2.5	-9.8	
WISCONSIN	3.9	4.8		0.3	0.3	
WYOMING	-6.8	7.8		-10.1	3.2	
TOTAL	6.3	5.7	6.3	2.6	1.1	1.2
DIST. OF COL.	6.6	5.3		3.0	0.8	

Table A-7
STATE BUDGET CUTS ADOPTED IN THE FISCAL 1987 BUDGET AFTER APPROPRIATION BILL HAS PASSED (FINAL FIGURES)

State	Amount (In Millions)	Cut as % of General Fund Expenditure	Action Taken By	Selective or Across-the-Board	Date Enacted	Notes
AL	$84.6	5.0%	Governor	Across-the-Board	10/86	Cut 5% from Education Fund.
AK	193.4	7.5	Both	Across-the-Board	7/86	Cash assistance to individuals exempted; aid to local government and school districts cut 10%.
AR	95.3	5.4	Governor	Across-the-Board	8/86 1/87 4/87	Cuts made according to original budget priorities.
AZ	157.0	6.6	Both	Selective	1/87	Excludes elected offices, some health and income maintenance programs, and education K-12.
CA	41.4	0.1	Governor	Across-the-Board	12/86	24 hour care facilities and higher education institutions exempted; payments to individuals and governments exempted.
CO	37.6	2.0	Governor	Across-the-Board	11/86	
IL	332.0	3.2	Governor	Across-the-Board	6/86	Education cut less.
KS	60.0	3.3	Both	Across-the-Board	1/87	Exempted selected aid to local governments.
KY	120.0	4.0	Governor	Selective	1/87 5/87	Exempted local school district payments.
LA	154.0	4.0	Governor	Selective	10/86 1/87	Exempted judiciary, revenue department and corrections.
MN	116.0	2.2	Both	Both	4/86	
MO	49.0	1.5	Governor	Selective	1/87	Exempted refund accounts, equalization aid to local school districts, AFDC grants, and selected other programs.
MT	37.1	9.7	Both	Both	7/86 12/86	Includes 3% cut for education foundation aid and elimination of state employee COLAs. Second cut exempted institutions and public schools.
NE	6.5	0.7	Both	Selective	12/86	Exempted corrections.
NM	26.1* (biennium)	2.0	Legislature	Across-the-Board	6/86	Exempted Medicaid and AFDC.
ND	45.0* (FY87) 13.0	5.1	Both	Both	3/86 12/86 2/87	
OK	27.9	1.7	Both	Selective	3/87	Exempts public education, higher education, and vocational tech.
SC	110.8	4.1	Both	Across-the-Board	11/86 2/87	Exempted corrections, mental health, and small agencies.

Table A-7 *(continued)*
STATE BUDGET CUTS ADOPTED IN THE FISCAL 1987 BUDGET
AFTER APPROPRIATION BILL HAS PASSED
(FINAL FIGURES)

State	*Amount (in Millions)*	*Cut as % of General Fund Expenditure*	*Action Taken By*	*Selective or Across-the-Board*	*Date Enacted*	*Notes*
SD	2.3	0.6	Governor	Across-the-Board	12/86	Exempted all special appropriations including state aid to education and to local government.
TX	668.0	5.8	Governor	Selective	2/86	Exempted K-12 education, highways, and retirement systems. Small cuts in corrections and mental health and retardation.
UT	52.0	4.0	Both	Selective	11/86 2/87	
WV	44.0*	2.6	Governor	Across-the-Board	4/87	Exempted education aid and debt service; all other programs cut 5%. (Equals 20% cut for 4th quarter.)
WI	230.0* (biennium)	2.3	Legislature	Selective	2/86	State operations were cut about 5.8% and aid to local governments and individuals cut less or exempted.
WY	20.7	2.7	Both	Both	5/86	

*These figures are for two fiscal years.

TABLE A-8
STATE EMPLOYEE SALARY COMPENSATION PACKAGE, FISCAL 1988

State and Region	*Across-the-Board (ATB)*	*Merit*	*Other*	*Notes*
New England				
Connecticut	5.0 %		1.5	"Other" inc. is anniversary inc.
Maine	N/A			Negotiations continuing.
Massachusetts	4.0	0.8	1.0	"Other" inc. is for step inc. to those that are eligible.
New Hampshire	3.0			Eff. 9/87; additional 3% eff. 6/88; and 3% 12/88.
Rhode Island	5.5			
Vermont	2.9	0.1	3.2	
Mideast				
Delaware	3.0		7.0	"Other" inc. is for readjustment with private sector jobs. Eff. 1/88.
Dist. of Col.	0.0		1.2	"Other" inc. represents step increase. Pay raises are still being negotiated.
Maryland	2.5		2.0	"Other" inc. for grade restructuring.
New Jersey	4.5	3.0		ATB eff. 10/1/87.
New York	5.0-6.0			Awards are flat dollar amounts ranging from $750 to $1,000.
Pennsylvania	3.5			Those not at maximum step of pay range get an annual increase of about 4.5%.
Great Lakes				
Illinois	4.5		1.5	ATB inc. for AFSCME only. Other ATB inc. will be limited to 1.0 to 1.5%. Limited merit inc. awarded.
Indiana	2.0	2.0		Merit inc. on anniv. date; 2-8% merit given to selected classes; 15% of employees eligible for double merit.
Michigan	3.0-3.5			Figures are averages for 9 bargaining units and non-bargaining employees.
Ohio	4.5			Various packages have been negotiated. Two main packages call for a 4.0% to 5.0% increase.
Wisconsin	N/A			Represented employees still negotiating; non-represented employees will receive a 2% merit inc.
Plains				
Iowa	2.0	4.8		All receive merit/step inc. up to maximum.
Kansas	1.0		1.5	"Other" inc. is for step movements.
Minnesota	2.5			State appropriated amount for increases, but there are no agreements reached yet with bargaining units.
Missouri	3.0			
Nebraska	3.0			Agencies may award merit pay from vacancy savings.
North Dakota	0.0			
South Dakota	0.0	2.65	0.35	"Other" inc. for longevity for employees with ten years or more state employment.

(CONTINUED)

TABLE A-8 *(continued)*
STATE EMPLOYEE SALARY COMPENSATION PACKAGE, FISCAL 1988

State and Region	*Across-the-Board (ATB)*	*Merit*	*Other*	*Notes*
Southeast				
Alabama	0.0	5.0		Only for those employees that are eligible.
Arkansas	0.0			Pay freeze extended.
Florida	3.0	1.5	0.5	Merit inc. range from 3-5% for eligible employees; "Other" inc. for class adjustments for 20,000 employees.
Georgia	2.5	4.2		
Kentucky	5.0			$2 million set-aside for "pay for performance" awards.
Louisiana	0.0	1.2		
Mississippi	4.0			4% or $75/mo. whichever is greater for all employed before 7/1/86.
North Carolina	5.0			
South Carolina	2.0	0.5		
Tennessee	0.0		4.5	Step inc. for most employees
Virginia	4.56	1.55		
West Virginia	0.0			
Southwest				
Arizona	1.5			Excludes employee health insurance benefits.
New Mexico	1.0	1.5		
Oklahoma	0.0			
Texas	0.0			In FY 89, a 2% increase will be funded.
Rocky Mountain				
Colorado	1.7	5.0		Merit for eligible employees only at certain steps.
Idaho	4.0			Eff. 9/20/87.
Montana	0.0			
Utah	0.0			
Wyoming	0.0			
Far West				
California	4.0		0.4	ATB inc. eff. 1/1/88; 5% merit for eligible employ. absorbed by agency budgets; "other" inc. for health/dental.
Nevada	3.0	5.0		
Oregon	2.0		1.0	"Other" inc. for pay equity.
Washington	3.0			Does not include comparable worth adjustment and increase of 5% for 50% of classified employees.
Alaska	0.0	3.5		State still negotiating with some unions.
Hawaii	6.0			Eff. 10/1/87.

Table A-9
ANNUAL CHANGE IN THE SIZE OF THE STATE WORKFORCE

State and Region	*Number of Employees as of 6/30/86*	*Estimated Number of Employees as of 6/30/87*	*Percentage Change from Fiscal 1986 to 1987*
United States	2,068,959	2,077,972	0.4
New England	144,541	148,544	2.8
Connecticut	35,247	36,657	4.0
Maine	14,400	14,400	0.0
Massachusetts	60,600	62,700 *	3.5
New Hampshire	9,200	9,600	4.3
Rhode Island	18,208	18,151	- 0.3
Vermont	6,886	7,036	2.2
Mideast	452,741	459,117	1.4
Delaware	N/A	N/A	
Dist. of Col.	32,321	33,743	4.4
Maryland	68,228	70,999	4.1
New Jersey*	66,000	67,564	2.4
New York*	205,927	207,263	0.6
Pennsylvania	80,265	79,548	- 0.9
Great Lakes	284,942	288,450	1.2
Illinois	76,700	76,600	- 0.1
Indiana	35,000	35,100	2.9
Michigan	61,997	64,000	3.2
Ohio	54,706	55,672	1.8
Wisconsin	56,539	57,078	1.0
Plains	118,932	117,453	- 1.2
Iowa	22,625	21,049	- 7.0
Kansas	38,460	38,750	0.8
Minnesota	25,612	25,931	1.2
Missouri	N/A	N/A	
Nebraska*	15,295	15,389	0.6
North Dakota	8,448	8,448	0.0
South Dakota	8,492	7,886	- 7.1
Southeast	469,950	473,064	0.7
Alabama	30,055	29,462 *	- 2.0
Arkansas	18,688	18,625	- 0.3
Florida	85,975	89,144	3.4
Georgia	44,533	45,020	1.1
Kentucky	37,512	36,355	- 3.1
Louisiana	55,998	53,878	- 3.8
Mississippi	N/A	N/A	
North Carolina	57,929	58,089	0.3
South Carolina	45,676	46,856	2.3
Tennessee	44,600	45,800	2.7
Virginia	48,984	49,835	1.7
West Virginia	N/A	N/A	
Southwest	169,464	169,366	- 0.1
Arizona	31,092	32,701	5.2
New Mexico	17,000	17,000	0.0
Oklahoma	33,662	33,541	- 0.4
Texas	87,710	86,124	- 1.8
Rocky Mountain	62,357	62,734	0.6
Colorado	18,944	19,383	2.3
Idaho	9,367	9,561	2.1
Montana	9,826	9,777	- 0.5
Utah	16,136	15,973	- 1.0
Wyoming	8,084	8,040	- 0.5
Far West	366,032	359,244	- 1.9
California	241,608	236,155	- 2.3
Nevada	9,154	9,391	2.6
Oregon	41,991	42,320	0.8
Washington	43,088	41,402	- 3.9
Alaska	14,300	13,685	- 4.3
Hawaii	15,891	16,291	2.5

* NOTES TO TABLE A-9

Alabama	Number of employees as of 4/30/87.
Massachusetts	Includes 700 consultants and conversions to scheduled employment.
Nebraska	Figures are from May 1986 to May 1987.
New Jersey	Does not include part-time employees.
New York	Excludes legislative and judicial employees. Figures are from June 25, 1986 to June 1, 1987.

Table A-10
FISCAL 1987 TAX COLLECTIONS COMPARED TO INITIAL PROJECTIONS USED IN FORMULATING BUDGET
($ in millions)

State and Region	Personal Income Tax			Sales Tax	
	Original Estimate	Current Estimate	Increase due to Capital Gains	Original Estimate	Current Estimate
United States					
New England					
Connecticut*	$ 309	$ 468	$ 159	$ 1,677	$ 1,835
Maine	360	393	6	407	413
Massachusetts	N/A	N/A	N/A	N/A	N/A
New Hampshire	N/A	N/A		N/A	N/A
Rhode Island	315	352	32	337	354
Vermont	166	195	16	102	107
Mideast					
Delaware					
Dist. of Col.	496	498	N/A	404	383
Maryland	2,073	2,236	N/A	1,276	1,299
New Jersey	2,217	2,510	200	2,767	2,830
New York	13,301*		*	4,820	4,849
Pennsylvania	2,678	2,818	76	3,453	3,569
Great Lakes					
Illinois	3,135	3,303	135	3,377	3,255
Indiana	1,409	1,455	25	1,814	1,834
Michigan	2,824*	2,880*	N/A	2,390	2,388
Ohio	3,120	3,216	80-100	2,350	2,389
Wisconsin	2,165	2,224		1,625	1,652
Plains					
Iowa	1,117	1,130	13	625	643
Kansas	660*	773	4	523	655*
Minnesota	2,278	2,250	60	1,581	1,453
Missouri	1,434	1,444	N/A	1,081	1,070
Nebraska	N/A			N/A	
North Dakota	N/A			N/A	
South Dakota	N/A			195	192
Southeast					
Alabama*	950*	990*	70	705	705
Arkansas	653	665	16	629	611
Florida	N/A	N/A		5,520	5,551
Georgia	2,552*	2,552*	N/A	1,852	1,852
Kentucky	930	921	N/A	944	892
Louisiana	526	453	N/A	1,200	1,054
Mississippi	267	303	20	687	670
North Carolina	2,361	2,566	76	1,456	1,452
South Carolina	1,041	1,009	N/A	963	939
Tennessee	56	68	N/A	1,984	1,984
Virginia	2,351	*	N/A	1,107	*
West Virginia	428	428	N/A	291	291
Southwest					
Arizona	660	650	N/A	1,200	1,202
New Mexico	164	241*	N/A	644	598
Oklahoma	688	679	0	573	582
Texas				4,800	4,500
Rocky Mountain					
Colorado	1,098	1,033	N/A	719	648
Idaho	268	262	0	209	264
Montana	134	123	N/A	N/A	N/A
Utah	490	532	20	570	552
Wyoming	N/A	N/A		109	88
Far West					
California	12,460	13,980	1,000	11,100*	10,890*
Nevada	N/A	N/A		182	191
Oregon	1,280	1,433	Less than 100	N/A	N/A
Washington	N/A	N/A		2,224	2,288
Alaska	N/A	N/A		N/A	N/A
Hawaii	505	502	N/A	769	799

* NOTES TO TABLE A-10

Alabama	Combines individual and corporate income taxes.
California	Figures include only amount for General Fund.
Connecticut	Figures are for capital gains tax only.
Georgia	Combines individual and corporate income taxes.
Kansas	Personal income tax does not include $143 million due to federal tax reform. Sales tax reflects tax increase from 3% to 4%.
Michigan	Figures are net of refunds and credits. Figures are for General Fund only.
New Mexico	Figure includes tax increase.
New York	Figure is for Fiscal 1988. Capital gains figure is difficult to estimate; however, for Fiscal 1988 it may be as high as $850 million.
Virginia	June data not available at time of survey.

Table A-11
STATE REVENUE EXPECTED TO BE COLLECTED DUE TO FEDERAL TAX REFORM, FISCAL 1988**

State	*Personal Income*		*Corporate Income*	
	Retain for State	*Return to Taxpayers*	*Retain for State*	*Return to Taxpayers*
United States***	$1,054	$4,596	$358	$289
Alabama	10	0	*	
Alaska	– no tax –		– no tax –	
Arizona	0	117	11	0
Arkansas	0	0	0	0
California	0	1,407	0	N/A
Colorado	130.3	134.5	30.5	0
Connecticut	0	150.0	N/A	N/A
Delaware	2.1*	20.5	6.5	0
Dist. of Col.	0	46.6	0	8.4
Florida	– no tax –		46.9	76.2
Georgia	0	200-250	0	*
Hawaii	0	50	0	2.0
Idaho	13.3	0	8.2	0
Illinois	100.0	0	56.0	0
Indiana	50.0	0	0	0
Iowa*	0	120	25	0
Kansas	143	0	0	0
Kentucky*	N/A	N/A	N/A	N/A
Louisiana	40	0	0	0
Maine	0	13.0	0	3.5
Maryland	54.4	98.4	13.9	0
Massachusetts	80	0	60	0
Michigan	0	170*	N/A	N/A
Minnesota	0	304	0	27
Mississippi	10	0	3	0
Missouri	157	0	16	0
Montana	22.6	0	4.7	0
Nebraska*	N/A	N/A		
Nevada	– no tax –		– no tax –	
New Hampshire	– no tax –			
New Jersey	0	0	10.0	0
New Mexico	54.0	0	5.0	0
New York*	0	1,100	0	105
North Carolina	15.0	0	10	0
North Dakota*	N/A	N/A	0	0
Ohio	0	262.0	0	41.0
Oklahoma	122.4	0	N/A	N/A
Oregon	0	168.0	N/A	N/A
Pennsylvania	0	0	0	0
Rhode Island*	N/A	N/A	5.0	0
South Carolina	*	*	28	0*
South Dakota	– no tax –		– no tax–	
Tennessee	– no tax –		N/A	N/A
Texas	– no tax –		– no tax –	
Utah	50	0	N/A	N/A
Vermont*	N/A	N/A	0	0
Virginia	0	147	0	26
Washington	– no tax –		– no tax –	
West Virginia	0	47	N/A	N/A
Wisconsin	0	185.8	18.2	0
Wyoming	– no tax –		– no tax –	

** Assumes state updates to the federal code, but makes no other adjustments.

*** Total does not include Kentucky or Michigan.

* NOTES TO TABLE A-11

Alabama	Combines personal and corporate income tax figures.
Delaware	For tax year 1988 and beyond, the entire windfall is returned to the taxpayers.
Georgia	Corporate income tax figures combined with personal income tax.
Iowa	The state is currently conformed to the 1986 federal tax code. The state retained $35 million that accrued due directly to taxpayer behavior changes whereby the taxpayer declared more income liable for taxation purposes.
Kentucky	Legislature did not meet in regular session in 1987. State conforms to federal IRC as of a specific date. Therefore, for TY87, no windfall was accrued by the state.
Michigan	Action not final. Governor's proposal to return all of revenue to taxpayers.
New York	Figures based on calendar year for 1987.
South Carolina	The state loses $9 million in personal income taxes because of the way it conforms to the federal income tax. For TY88, the state will retain the windfall for the corporate income tax. However, in future years the windfall will be returned to corporate taxpayers.
Nebraska **North Dakota** **Rhode Island** **Vermont**	These states will lose state personal income tax revenue because of how they conform to the federal tax code if no adjustments were made.

Table A-12
CHANGES IN STATE PERSONAL EXEMPTIONS AND STANDARD DEDUCTIONS

State and Region	Personal Exemptions						Standard Deduction					
	Old Law			New Law			Old Law			New Law		
	Single	Joint	Dependent	Single	Joint	Dependent	Single	Joint	Percent[1]	Single	Joint	Percent[1]
New England												
Connecticut	---------- Limited Personal Income Tax ----------											
Maine	1,000	2,000	1,000	-- No Change --			2,500*	3,100*	16	-- No Change --		
Massachusetts	2,200	4,400	1,000	-- No Change --			x	x	x	x	x	x
New Hampshire	---------- Limited Personal Income Tax ----------											
Rhode Island[3]*	-- Same as Federal --			-- Increases with Federal --			-- Same as Federal --			-- Increases with Federal --		
Vermont[3]	-- Same as Federal --			-- Increases with Federal --			-- Same as Federal --			-- Increases with Federal --		
Mideast												
Delaware	1,000	2,000	1,000	1,250*	2,500*	1,250*	1,000	1,000	10	1,300 *	1,600 *	x
Dist. of Col.	750	1,500	750	1,370*	2,740*	1,370*	1,000	1,000	x	2,000	2,000	x
Maryland	800	1,600	800	1,100*	2,200*	1,100*	1,500	3,000	13	1,000-2,000	2,000-4,000	15
New Jersey	1,000	2,000	1,000	-- No Change --			x	x	x	x	x	x
New York*	900	1,800	900	0	0	1,000	2,800	3,800	x	7,500	13,000	x
Pennsylvania	x	x	x	x	x	x	x	x	x	x	x	x
Great Lakes												
Illinois	1,000	2,000	1,000	-- No Change --			x	x	x	x	x	x
Indiana	1,000	2,000	1,000	-- No Change --			x	x	x	x	x	x
Michigan	1,500	3,000	1,500	-- Pending --			x	x	x	x	x	x
Ohio*	650	1,300	650	-- No Change --			x	x	x	x	x	x
Wisconsin	x	x	50 CR	-- No Change --			5,200 *	7,200 *	x	5,200 *	8,900 *	x
Plains												
Iowa	20 CR	40 CR	15 CR	-- No Change --			1,200	3,000	15	-- No Change --		
Kansas	1,000	2,000	1,000	-- No Change --			2,400	2,800	16	-- No Change --		
Minnesota	73 CR	146 CR	73 CR	-- Same as Federal --			2,500	2,500	10	-- Same as Federal --		
Missouri	1,200	1,200	400	-- No Change --			-- Same as Federal --			-- Increases with Federal --		
Nebraska[3]	-- Same as Federal --			1,100	2,200	1,100	-- Same as Federal --			2,530	3,740	x
North Dakota[3]	-- Same as Federal --			-- Increases with Federal --			-- Same as Federal --			-- Increases with Federal --		
South Dakota	---------- No State Personal Income Tax ----------											

(CONTINUED)

Table A-12 (*continued*)
CHANGES IN STATE PERSONAL EXEMPTIONS AND STANDARD DEDUCTIONS

State and Region	Personal Exemptions						Standard Deduction					
	Old Law			New Law			Old Law			New Law		
	Single	Joint	Dependent	Single	Joint	Dependent	Single	Joint	Percent[1]	Single	Joint	Percent[1]
Southeast												
Alabama*	1,500	3,000	300	-- No Change --			2,000	4,000	20	-- No Change --		
Arkansas	17.50 CR	35 CR	6 CR	20 CR	40 CR	20 CR	1,000	1,000	10	-- No Change --		
Florida	---------- No State Personal Income Tax ----------											
Georgia	1,500	3,000	700	1,500	3,000	1,500	2,300	3,000	15 & 18*	2,300	3,900	x
Kentucky	20 CR	40 CR	20 CR	-- No Change --			650	1,300 *	x	-- No Change --		
Louisiana	4,500	9,000	1,000	-- No Change --			*	*	x	-- No Change --		
Mississippi	6,000	9,500	1,500	-- No Change --			2,300	3,400	15	-- No Change --		
North Carolina	1,100	1,100 *	800	-- No Change --			550	550	10	-- No Change --		
South Carolina	-- Same as Federal --			-- Increases with Federal --			-- Same as Federal --			-- Increases with Federal --		
Tennessee	---------- Limited Personal Income Tax ----------											
Virginia*	600	1,200	600	800	1,600	800	2,000	2,000	10	3,000	5,000	x
West Virginia	800	1,600	800	2,000	4,000	2,000	1,000	1,000	10	x	x	x
Southwest												
Arizona[2]*	2,045	4,090	1,227	-- No Change --			1,023	2,045	x	-- No Change --		
New Mexico	2,000	4,000	2,000	-- No Change --			3,000	4,000	x	-- No Change --		
Oklahoma	1,000	2,000	1,000	-- No Change --			2,000	2,000	15	-- No Change --		
Texas	---------- No State Personal Income Tax ----------											
Rocky Mountain												
Colorado	1,200	2,400	1,200	-- Same as Federal --			1,420	1,420	x	-- Same as Federal --		
Idaho	-- Same as Federal --			-- Increases with Federal --			-- Same as Federal --			-- Increases with Federal --		
Montana[2]	1,060	2,120	1,060	-- No Change --			1,990	3,980	20	-- No Change --		
Utah	750	1,500	750	-- 75% of Federal Exemption --			1,000	2,000	15	-- Same as Federal --		
Wyoming	---------- No State Personal Income Tax ----------											
Far West												
California[2]	43 CR	86 CR	13 CR	52 CR*	104 CR*	52 CR*	1,710	3,420	x	1,880	3,760	x
Nevada	---------- No State Personal Income Tax ----------											
Oregon	90 CR	180 CR	90 CR	-- No Change --			1,500	1,500	13*	1,800	3,000	x
Washington	---------- No State Personal Income Tax ----------											
Alaska	---------- No State Personal Income Tax ----------											
Hawaii	1,040	2,080	1,040	-- No Change --			800	1,000	x	1,000	1,700	x

CR = Tax Credit (Instead of Deduction)

1/ The standard deduction equals the lesser of the percent indicated multiplied by the adjusted gross income or the dollar amount indicated.

2/ State income tax is full or partially indexed for inflation changes. Information shown is for tax year 1986.

3/ North Dakota, Rhode Island and Vermont base their tax on federal tax liability, thereby automatically adapted to the federal personal exemption and standard deduction. Nebraska's old tax system was designed in this manner.

* NOTES TO TABLE A-12

Arizona	Figures provided are for TY 1987. (The state indexes these figures each year to adjust for inflation.) Changes may occur in the next legislative session that would alter the personal exemption and standard deductions.
California	The 1987 personal exemption will be $51 for each exemption. After 1988, it will be indexed for inflation.
Dist. of Col.	The increase in the personal exemption will be completely phased in by 1991. Figures shown are for 1991.
Delaware	New tax law takes effect in 1988.
Georgia	Old law provides for an amount equal to 15% of adjusted gross income or a minimum standard deduction of $1,500 and a maximum of 2,300 for singles. For married-joint returns it equals 18% of adjusted gross income or a minimum of $1,700 and a maximum of $3,000.
Kentucky	The standard deduction is $650 if one spouse has income and $1,300 if both spouses declare income.
Louisiana	The personal exemption and standard deduction are combined.
Maine	The minimum standard deduction for single returns is $1,700 with a maximum $2,500. For joint returns, the minimum is $2,100 and the maximum is $3,100.
Maryland	The personal exemptions shown are for 1989. For 1987, there are $1,000 for single and dependents, and $2,000 for married.
New York	Figures reflect the fully phased-in provisions which will be adopted in 1990.
North Carolina	No joint returns are allowed. If second working spouse provides up to one-half of their support, an additional exemption is allowed.
Ohio	In addition to the $650 standard deduction, taxpayers have the option of taking an additional $350 exemption or a $20 credit against income tax due for each exemption claimed.
Oklahoma	The minimum standard deduction under old law was $1,050 with a maximum of $1,500 for both single and joint returns.
Virginia	New tax law is fully phased in by 1989. The minimum standard deduction under old law was $1,300 and the maximum was $2,000 for both single and joint returns.
Wisconsin	Figures shown for standard deductions are maximum, sliding-scale amounts which are calculated based on income level. The new standard deduction for joint returns is effective in 1988.

EXHIBIT:

Federal personal exemption:
Old Law -- $1,080 for each deduction.
New Law -- $1,900 in 1987; $1,950 in 1988; and $2,000 in 1989. Thereafter, it will be indexed for inflation.

Federal Standard Deduction:	Old Law	1987	1988
Single:	$2,480	$2,540	$3,000
Joint:	3,670	3,760	5,000

Table A-13
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
Alabama	First $500	2.0	– No Change –	
	$501-$3,000	4.0		
	Over $3,000	5.0		
	Note: Married persons filing jointly are taxed at 2% of the first $1,000 of taxable income, 4% on the next $5,000, and 5% on any excess over $6,000.			
Arizona	First $1,155	2.0	No change except for inflation adjustments	
	$1,155-$2,310	3.0		
	$2,310-$3,465	4.0		
	$3,465-$4,620	5.0		
	$4,620-$5,775	6.0		
	$5,775-$6,930	7.0		
	$6,930 & over	8.0		
	Note: For married joint returns, the tax brackets are exactly doubled.			
	Enacted a new deduction for tax year 1987 equaling 46% of federal tax liability or $475, whichever is greater. This will return any "windfall" monies due to federal tax reform.			
Arkansas	First $2,999	1.0	– No Change –	
	$3,000-$5,999	2.5		
	$6,000-$8,999	3.5		
	$9,000-$14,999	4.5		
	$15,000-$24,999	6.0		
	Over $25,000	7.0		
	Note: Two-earner married taxpayers may file separately on the same return (rather than jointly) in order to minimize their tax liability.			
California	$0-$1,710	No Tax	$0-$3,650	1
	$1,711-$5,210	1.0	$3,650-$8,650	2
	$5,211-$7,810	2.0	$8,650-$13,650	4
	$7,811-$10,420	3.0	$13,650-$18,950	6
	$10,421-$13,080	4.0	$18,950-$23,950	8
	$13,081-$15,710	5.0	Over $23,950	9.3
	$15,711-$18,330	6.0		
	$18,331-$20,930	7.0		
	$20,931-$23,560	8.0		
	$23,561-$26,180	9.0		
	$26,181-$28,790	10.0		
	Over $28,790	11.0		
	Note: Rates shown are for single taxpayers and married filing separately. For joint returns the tax bracket amounts are exactly double (e.g., top bracket $47,900). The new rates and brackets have been passed by the legislature and await the Governor's signature.			
Colorado	$0-$1,420	3.0	Taxable net income	5.0
	$1,421-$2,830	3.5		
	$2,831-$4,250	4.0		
	$4,251-$5,660	4.5		
	$5,661-$7,080	5.0		
	$7,081-$8,490	5.5		
	$8,491-$9,910	6.0		
	$9,911-$11,320	6.5		
	$11,321-$12,740	7.0		
	$12,741-$14,150	7.5		
	Over $14,150	8.0		

Table A-13 *(continued)*
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
Connecticut	$54,000-$57,999	1.0	No change for tax on interest and dividends. However, a 60% capital gains exclusion is continued.	
	$58,000-$61,999	2.0		
	$62,000-$65,999	3.0		
	$66,000-$69,999	4.0		
	$70,000-$73,999	5.0		
	$74,000-$77,999	6.0		
	$78,000-$81,999	7.0		
	$82,000-$85,999	8.0		
	$86,000-$89,999	9.0		
	$90,000-$99,999	11.0		
	$100,000 & over	12.0		
	Note: Income tax applies to interest and dividend income only; no tax on earned income. A 7% tax is imposed on all net gains from the sales or exchange of capital assets, with a 60% exclusion for capital gains.			
Delaware	$0-$1,000	1.2	1986 rates are the same for 1987. The 1988 rates are:	
	$1,000-$2,000	1.6		
	$2,000-$3,000	2.5		
	$3,000-$4,000	3.5	$0-$2,000	0
	$4,000-$5,000	4.3	$2,001-$5,000	3.2
	$5,000-$6,000	5.1	$5,001-$10,000	5.0
	$6,000-$8,000	5.9	$10,001-$20,000	6.0
	$8,000-$10,000	6.6	$20,001-$25,000	6.2
	$10,000-$15,000	6.7	$25,001-$30,000	7.0
	$15,000-$20,000	6.9	$30,001-$40,000	7.6
	$20,000-$25,000	7.2	Over $40,000	7.7
	$25,000-$30,000	7.7		
	$30,000-$40,000	9.0		
	$40,000 & over	9.7		
	Note: Two-earner married taxpayers may file separately on the same return (rather than jointly) in order to minimize their liability.			
Dist. of Col.	First $1,000	2.0	First $10,000	6
	$1,001-$2,000	3.0	$10,001-$20,000	8
	$2,001-$3,000	4.0	Over $20,001	10
	$3,001-$4,000	5.0		
	$4,001-$5,000	6.0		
	$5,001-$10,000	7.0		
	$10,001-$13,000	8.0		
	$13,001-$17,000	9.0		
	$17,001-$25,000	10.0		
	Over $25,000	11.0		
	Note: Top tax rate decreases to 9.5% in 1988.			
Georgia	First $750	1.0	– No Change –	
	$751-$2,250	2.0		
	$2,251-$3,750	3.0		
	$3,751-$5,250	4.0		
	$5,251-$7,000	5.0		
	Over $7,000	6.0		
	Note: If married taxpayers file joint federal returns, they must file joint state returns. The rates for these taxpayers range from 1% of the first $1,000 of taxable income to 6% of taxable income over $10,000.			

Table A-13 *(continued)*
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
Hawaii	First $800	No Tax	First $1,000	2.25
	$801-$1,300	2.25	$1,001-$2,000	4.25
	$1,301-$1,800	3.25	$2,001-$3,000	6.25
	$1,801-$2,300	4.5	$3,001-$5,000	7.25
	$2,301-$2,800	5.0	$5,001-$10,000	8.25
	$2,801-$3,800	6.5	$10,001-$14,000	9.25
	$3,801-$5,800	7.5	$14,001-$20,000	9.75
	$5,801-$10,800	8.5	Over $20,000	10.0
	$10,801-$14,800	9.5		
	$14,801-$20,800	10.0		
	$20,801-$30,800	10.5		
	Over $30,801	11.0		
	Note: For 1986, married taxpayers filing jointly pay at rates of 2.25% of the first $2,000 of taxable income to 11% of taxable income over $61,000. (Although married taxpayers are permitted to file separately, filing jointly generally results in a lower tax liability.) For 1987, the rates will be 2.25% of the first $2,000 to 10% over $40,000. New tax schedules will be phased in by 1989, when single taxpayers will be taxed at 2.25% of the first $1,500 to 10% over $20,500. For married taxpayers filing jointly, the rates are 2.25% of the first $3,000 to 10% over $41,000.			
Idaho	First $1,000	2.0	First $1,000	2
	$1,001-$2,000	4.0	$1,001-$2,000	4
	$2,001-$3,000	4.5	$2,001-$3,000	4.5
	$3,001-$4,000	5.5	$3,001-$4,000	5.5
	$4,001-$5,000	6.5	$4,001-$5,000	6.5
	Over $5,000	7.5	$5,001-$7,500	7.5
			$7,501-$20,000	7.8
			Over $20,000	8.2
	Note: If joint federal return is filed, joint state return is required. Brackets for married filing jointly are twice those shown above (e.g., 7.5% over $10,000).			
Illinois	Taxable net income	2.5	– No Change –	
Indiana	Taxable net income	3.0	Taxable net income	3.4
	Note: Rate increase takes effect on July 1, 1987 and is only in effect for one-half of the tax year.			
Iowa	$0-$1,023	0.5	No change except for possible inflation adjustments	
	$1,024-$2,046	1.25		
	$2,047-$3,069	2.75		
	$3,070-$4,092	3.5		
	$4,093-$7,161	5.0		
	$7,162-$9,207	6.0		
	$9,208-$15,345	7.0		
	$15,346-$20,460	8.0		
	$20,461-$25,575	9.0		
	$25,576-$30,690	10.0		
	$30,691-$40,920	11.0		
	$40,921-$76,725	12.0		
	Over $76,725	13.0		
	Note: Two-earner married taxpayers may file separately on the same return (rather than jointly) in order to minimize their tax liability.			

Table A-13 *(continued)*
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
Kansas	First $2,000	2.0	– No Change –	
	$2,001-$3,000	3.5		
	$3,001-$5,000	4.0		
	$5,001-$7,000	5.0		
	$7,001-$10,000	6.5		
	$10,001-$20,000	7.5		
	$20,001-$25,000	8.5		
	Over $25,000	9.0		
	Note: Two-earner married taxpayers may file separately on the same return (rather than jointly) in order to minimize their tax liability. Bracket amounts for married taxpayers filing joint returns are double those shown above. The rates remain the same.			
Kentucky	First $3,000	2.0	– No Change –	
	$3,001-$4,000	3.0		
	$4,001-$5,000	4.0		
	$5,001-$8,000	5.0		
	Over $8,000	6.0		
	Note: Two-earner married taxpayers may file separately on the same return (rather than jointly) in order to minimize their tax liability.			
Louisiana	First $10,000	2.0	– No Change –	
	$10,000-$50,000	4.0		
	Over $50,000	6.0		
	Note: Two-earner married taxpayers may file separately on the same tax return (rather than jointly) in order to minimize their tax liability. Tax rates for married couples filing jointly are doubled.			
Maine	First $2,000	1.0	No change except for inflation adjustment	
	$2,001-$4,400	2.0		
	$4,401-$6,400	3.0		
	$6,401-$8,600	6.0		
	$8,601-$10,800	7.0		
	$10,801-$16,100	8.0		
	$16,101-$25,000	9.2		
	Over $25,000	10.0		
	Note: For married individuals filing jointly, the tax rates range between 1% if taxable income is not over $4,400 and 10% if taxable income is over $50,000. The state is returning the "windfall" resulting from federal tax reform by creating a $9 credit per exemption, and those low-income taxpayers that are not liable for federal taxes will not have to file for state tax purposes.			
Maryland	First $1,000	2.0	– No Change –	
	$1,001-$2,000	3.0		
	$2,001-$3,000	4.0		
	Over $3,000	5.0		
	Note: To avert part of the federal "windfall," a credit equal to 50% of the federal earned income credit is created.			

Table A-13 *(continued)*
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
Massachusetts	Interest, dividends, net capital gains	10.0	– No Change –	
	Earned income, annuities	5.0		
Michigan	Taxable income	4.6	– No Change –	
Minnesota	$0-$310	1.0	First $3,000	4.0
	$311-$620	1.3	$3,001-$9,000	6.0
	$621-$930	1.6	$9,001-$16,000	8.0
	$931-$1,350	2.1	Over $16,000	9.0
	$1,351-$2,070	2.7		
	$2,071-$2,900	3.7		
	$2,901-$4,460	4.5		
	$4,461-$6,640	6.1		
	$6,641-$9,750	7.5		
	$9,751-$16,800	9.3		
	Over $16,800	9.9		
	Note: For 1986, married taxpayers filing joint federal returns must file joint state returns. The rates range from 1.7% of the first $1,240 of taxable income to 9.9% of taxable income greater than $31,940. An alternate rate schedule applies for taxpayers electing to deduct federal income taxes from state taxable income. In 1987, for married taxpayers filing jointly, the rates range from 4% on the first $4,000 to 9% of taxable income over $21,000. For 1988 and thereafter, the rates are:			
		Single	Married	
		6% $0-$13,000	$0-$19,000	
		8% Over $13,000	Over $19,000	
	In addition, there is a state 10% surtax on the federal 5% surtax levied on higher-income taxpayers.			
Mississippi	First $5,000	3.0	– No Change –	
	$5,001-$10,000	4.0		
	Over $10,000	5.0		
	Note: Two-earner married taxpayers may file separately on the same return (rather than jointly) in order to minimize their tax liability.			
Missouri	First $1,000	1.5	– No Change –	
	$1,001-$2,000	2.0		
	$2,001-$3,000	2.5		
	$3,001-$4,000	3.0		
	$4,001-$5,000	3.5		
	$5,001-$6,000	4.0		
	$6,001-$7,000	4.5		
	$7,001-$8,000	5.0		
	$8,001-$9,000	5.5		
	Over $9,000	6.0		

Table A-13 *(continued)*
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
Montana	$0-$1,300	2.0	No change except for inflation adjustments and 10% surcharge in effect for TY87, 88, 89	
	$1,301-$2,600	3.0		
	$2,601-$5,300	4.0		
	$5,301-$7,900	5.0		
	$7,901-$10,600	6.0		
	$10,601-$13,200	7.0		
	$13,201-$18,500	8.0		
	$18,501-$26,500	9.0		
	$26,501-$46,400	10.0		
	Over $46,400	11.0		
	Note: Two-earner married taxpayers may file separately on the same return (rather than jointly) in order to minimize their tax liability.			
Nebraska	Adjusted federal tax liability	19	First $1,800	2.0
			$1,801-$16,800	3.15
			$16,801-$27,000	5.0
			Over $27,000	5.9
	Note: For 1987, married filing jointly have the same four rates ranging from 2% for the first $3,000 of taxable income to 5.9% over $45,000. If low-income taxpayers do not file for federal tax purposes, they do not have to file for state tax purposes.			
New Hampshire	Interest and dividends only	5.0	– No Change –	
	Note: $1,200 of each taxpayer's interest and dividend income is exempt.			
New Jersey	First $20,000	2.0	– No Change –	
	$20,001-$50,000	2.5		
	Over $50,000	3.5		
New Mexico	First $5,200	1.8	– No Change –	
	$5,201-$10,400	3.0		
	$10,401-$15,600	4.5		
	$15,601-$23,400	5.8		
	$23,401-$31,200	6.9		
	$31,201-$41,600	7.7		
	Over $41,600	8.5		
	Note: Taxpayers filing jointly and heads of households pay at rates ranging from 2.4% on net income not over $8,000 to 8.5% on net income over $64,000.			

Table A-13 *(continued)*
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
New York	First $1,000	2.0	First $1,000	2
	$1,001-$3,000	3.0	$1,001-$3,000	3
	$3,001-$5,000	4.0	$3,001-$5,000	4
	$5,001-$7,000	5.0	$5,001-$7,000	5
	$7,001-$9,000	6.0	$7,001-$9,000	6
	$9,001-$11,000	7.0	$9,001-$11,000	7
	$11,001-$13,500	8.0	$11,001-$14,000	8
	$13,501-$16,000	9.0	Over $14,000	8.75
	$16,001-$18,500	10.0		
	$18,501-$21,000	11.0		
	$21,001-$23,500	12.0		
	$23,501-$26,000	13.0		
	Over $26,000	13.5		
	Note: The maximum tax rate on personal service taxable income for 1986 is 9.5% (9% after 1986) of the amount by which such income exceeds $16,000.			
	Two-earner married taxpayers may file separately on the same return (rather than jointly) in order to minimize their tax liability.			
	For 1987, married filing jointly tax rates will range from 2% on the first $1,700 of taxable income to 8.75% over $23,300. Tax rates will change each year until 1991 and thereafter, when the rates will be:			
		5.5%	Single $0-$12,500	Married $0-$27,000
		7.0%	Over $12,500	Over $27,000
North Carolina	First $2,000	3.0	– No Change –	
	$2,001-$4,000	4.0		
	$4,001-$6,000	5.0		
	$6,001-$10,000	6.0		
	Over $10,000	7.0		
	Note: Two-earner married taxpayers may file separately on the same return. Joint returns are not permitted.			
North Dakota	First $3,000	2.0	First $3,000	2.67
	$3,001-$5,000	3.0	$3,001-$5,000	4.0
	$5,001-$8,000	4.0	$5,001-$8,000	5.33
	$8,001-$15,000	5.0	$8,001-$15,000	6.67
	$15,001-$25,000	6.0	$15,001-$25,000	8.0
	$25,001-$35,000	7.0	$25,001-$35,000	9.33
	$35,001-$50,000	8.0	$35,001-$50,000	10.67
	Over $50,000	9.0	Over $50,000	12.0
	- or -		- or -	
	Federal tax liability	10.5	Federal tax liability	14
			Plus a 10% surcharge for both methods of tax computation for TY87.	
	Note: Two-earner married taxpayers may file separately on the same return (rather than jointly) in order to minimize their tax liability.			

Table A-13 *(continued)*
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
Ohio	First $5,000	0.855	First $5,000	0.751
	$5,001-$10,000	1.71	$5,001-$10,000	1.502
	$10,001-$15,000	3.42	$10,001-$15,000	3.004
	$15,001-$20,000	4.275	$15,001-$20,000	3.755
	$20,001-$40,000	5.13	$20,001-$40,000	4.506
	$40,001-$80,000	5.985	$40,001-$80,000	5.257
	$80,001-$100,000	6.84	$80,001-$100,000	6.008
	Over $100,000	8.55	Over $100,000	6.9
	Note: Two-income couples filing joint federal returns must file joint state returns; however, alternate rates are not available to these taxpayers. Instead, a joint filing credit of bewteen 5%-20% of state liability is granted to these taxpayers, depending on total income. 1987 tax rates are calculated on the basis of the state unemployment rate over 7%.			
Oklahoma	First $1,000	0.5	– No Change –	
	$1,001-$2,500	1.0		
	$2,501-$3,750	2.0		
	$3,751-$5,000	3.0		
	$5,001-$6,250	4.0		
	$6,251-$7,500	5.0		
	Over $7,500	6.0		
	Note: Bracket amounts are exactly double those shown above for married taxpayers filing jointly (e.g., 6% of income over $15,000). Optional rates (ranging from .5% to 17%) apply for taxpayers who elect to deduct federal income taxes.			
Oregon	First $500	4.0	First $2,000	5
	$501-$1,000	5.0	$2,001-$5,000	7
	$1,001-$2,000	6.0	Over $5,000	9
	$2,001-$3,000	7.0		
	$3,001-$4,000	8.0		
	$4,001-$5,000	9.0		
	Over $5,000	10.0		
	Note: Rates shown are for single individuals. Rates are the same for joint filers; however, bracket amounts are exactly double (e.g., top bracket $10,000).			
Pennsylvania	Taxable income	2.16	Taxable income	2.1
Rhode Island	Federal tax liability	22.21	Federal tax liability	23.96
	Note: As of July 1987, the tax rate will be 22.96%.			
South Carolina	First $2,300	No Tax	First $4,000	3
	$2,301-$4,300	2.0	$4,001-$6,000	4
	$4,301-$6,300	3.0	$6,001-$8,000	5
	$6,301-$8,300	4.0	$8,001-$10,000	6
	$8,301-$10,300	5.0	Over $10,000	7
	$10,301-$12,300	6.0		
	Over $12,300	7.0		
	Note: Two-income couples filing joint federal returns must file joint state returns. For 1986 only, for these taxpayers the rates range from no tax on $3,400 to 7% on income greater than $13,600.			

Table A-13 *(continued)*
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
Tennessee	Certain interest and dividends only	6.0	– No Change –	
	Note: Individuals are taxable only on certain interest and dividend income.			
Utah	First $750	2.75	– No Change –	
	$751-$1,500	3.75		
	$1,501-$2,250	4.75		
	$2,251-$3,000	5.75		
	$3,001-$3,750	6.75		
	Over $3,750	7.75		
	Note: Brackets amounts are exactly double those shown above for married taxpayers filing jointly (e.g., 7.75% over $7,000). Surtax of 4% of tax liability applies for tax years beginning in 1986.			
Vermont	Federal tax liability	24	Federal tax liability	25.8
	Note: Tax rate for 1988 is 25%.			
Virginia	First $3,000	2.0	First $3,000	2
	$3,001-$5,000	3.0	$3,001-$5,000	3
	$5,001-$12,000	5.0	$5,001-$14,000	5
	Over $12,000	5.75	Over $14,000	5.75
	Note: Two-earner married taxpayers may separately file on the same return (rather than jointly) in order to minimize their tax liability. By TY90, the tax rates will remain the same, but the brackets will be: $0-$3,000, $3,001-$5,000, $5,001-$17,000, and Over $17,000.			
West Virginia	First $2,000	2.1	First $10,000	3
	$2,001-$4,000	2.3	$10,001-$25,000	4
	$4,001-$6,000	2.8	$25,001-$40,000	4.5
	$6,001-$8,000	3.2	$40,001-$60,000	6
	$8,001-$10,000	3.5	Over $60,000	6.5
	$10,001-$12,000	4.0		
	$12,001-$14,000	5.3		
	$14,001-$16,000	5.9		
	$16,001-$18,000	6.8		
	$18,001-$20,000	7.4		
	$20,001-$22,000	8.2		
	$22,001-$26,000	9.2		
	$26,001-$32,000	10.5		
	$32,001-$38,000	11.6		
	$38,001-$44,000	12.6		
	$44,001-$60,000	12.9		
	Over $60,000	13.0		
	Note: For 1986 only, rates shown are for taxpayers filing separate returns. Taxpayers filing jointly or filing a return as a surviving spouse pay at rates ranging from 2.1% of taxable income not over $4,000 to 13% on taxable income over $120,000. For 1987 and thereafter, single and married taxpayers will use the same rates and brackets.			

Table A-13 *(continued)*
STATE PERSONAL INCOME TAX RATES, 1986 AND 1987

State	1986 Marginal Taxable Income	1986 Rates (%)	1987 Marginal Taxable Income	1987 Rates (%)
Wisconsin	$0-$7,500	5.0	First $7,500	4.90
	$7,501-$15,000	6.6	$7,501-$15,000	6.55
	$15,001-$30,000	7.5	Over $15,000	6.93
	Over $30,000	7.9		

Note: Beginning in 1987, the tax brackets will be indexed for inflation. For 1986, married couples filing joint returns pay at rates ranging from 5% of the first $10,000 of taxable income to 7.9% of income over $40,000. For 1987, married couples filing jointly will have tax rates of 4.90% for the first $10,000; 6.55% for income ranging from $10,000 to $20,000; and 6.93% for taxable income over $20,000.

SOURCE: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1987 Edition*, pp. 68-73; Commerce Clearing House, *State Tax Guide*; and National Association of State Budget Officers fiscal survey of state budget offices.

Table A-14
1987 STATE TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 88 Revenue Change ($ in millions)*
PERSONAL INCOME TAX *(Excludes taxes retained due to "windfall")*			
Arkansas	Adopted certain sections of Internal Revenue Code.	1/87	26.0
California	Reduced 1986 personal income tax liability by 15% through a one-time credit. The minimum credit for a single return is $32. A maximum credit will also be formulated depending on the exact amount to be rebated back to the taxpayer. This tax rebate was initiated as a result of the state's expenditure limitation.	11/87	(1,100) est.
Indiana	Increased rate from 3.0% of taxable income to 3.4%.	7/87	196.9
Massachusetts	Created tax rebate credit to distribute excess over revenue limitation.		(29)
Montana	Enacted a three-year 10% surcharge.	1/87-12/89	24.5
New Mexico	Altered sales tax credit.		3.1
New York	Changed tax rates, brackets, personal exemptions, and standard deductions to more than offset the windfall effect. Passed a 4-year tax cut package of $2.2 billion. Windfall is also returned. (Figure is for tax year 1987.)	1/87	(335)
North Dakota	Increased rate from 10.5% of federal tax liability to 14%.	1/87	32.0
	Enacted a one-year 10% surcharge.	1/87-12/87	8.0
Pennsylvania	Increased poverty provision from $3,000 to $4,500.	1/87	10.9
Rhode Island	Reduced rate from 23.96% of federal tax liability to 22.96%. (Rate would have to be raised to remain revenue-neutral due to federal tax reform.)	7/87	(16.8)
Vermont	Reduced rate from 25.8% of federal tax liability to 25%. (Rate would have to be raised to remain revenue-neutral due to federal tax reform.)		(2.0)
Wisconsin	Changed tax rates, brackets, and standard deductions to more than offset the windfall effect. Amount shows excess of windfall.		(113.7)

Table A-14 *(continued)*
1987 STATE TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 88 Revenue Change ($ in millions)*
SALES TAX			
Arkansas	Extended sales tax to interstate phone calls, cigarettes, rentals and leases, and mail order sales.	2/87	15.0
Colorado	Exempts from use tax machinery purchases of $500,000 or more.	1/88	(4.9)
Florida	Broadened sales tax base to include selected business and professional services.	7/87	721.2
	Use tax on mail order sales.	10/87	15.5
Idaho	Exempted food stamp purchases.	10/87	(1.4)
	Made 5% sales tax rate permanent. (Was scheduled to revert to 4%).		48.0 N/A
Louisiana	Exempted food stamps and WIC purchases.	7/87	(3.0)
	Exempted electricity sales for certain manufacturing firms.	7/87	(2.0)
	Exempted certain membership dues.	7/87	(1.0)
Minnesota	Broadened sales tax base, including some services.		97.6
North Dakota	Raised the rate from 5% to 5.5%.	7/87	16.0
	Broadened sales tax base.	7/87	1.0
Oklahoma	Increased rate from 3.25% to 4%.	6/87	134.9
	Increased vendor's fee.		0.6
South Dakota	Increased rate for one year from 4% to 5%.	5/87-4/88	40.0
	Repealed cigarette exemption.	7/87	3.0
Texas	Increased rate from 5.25% to 6%, added various services to base. (Was scheduled to revert to 4.125%).	10/87	1,267.0
Utah	Increased tax from 4.59375% to 5.09375%.	5/87	60.0
Vermont	Made 4% rate permanent. (Was scheduled to revert to 3%; originally passed in 1982.)		25.0
BUSINESS TAXES			
California	Adjusted base and lowered tax rate from 9.6% to 9.3%. State will lose $195 million by 1990 due to these provisions.	1/87	N/A
Colorado	Limited investment tax credit.	1/88	(1.2)
	Raised top corporate rate from 5.5% to 6.0%.	7/87	8.6
Hawaii	Lowered corporate income taxes.	1/87	(2.0)

Table A-14 *(continued)*
1987 STATE TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 88 Revenue Change ($ in millions)*
Business Taxes *(continued)*			
Idaho	Increased corporate income tax from 7.7% to 8%.	1/87	1.6
Indiana	Halted phase-out of gross income tax.	1/87	42.0
	Increased supplemental net income tax.	1/87	21.5
	Increased corporate adjusted gross income tax.	1/87	5.1
Minnesota	Reduced rates from 12% to 9.5%; adopted minimum tax; repealed loss carrybacks; changed some accounting methods.		72.9
Montana	Instituted a 4% surcharge.	1/88	N/A
Nebraska	Changed 3-factor apportionment formula.		1.1
North Carolina	Increased corporate rate from 6% to 7%.	1/87	100.0
Oregon	Decreased corporate rate from 7.5% to 6.6% (counteracts "windfall").		0.6
Pennsylvania	Decreased capital stock franchise tax.	1/87	(79.9)
South Carolina	Decreased corporate rate from 6% to 5.5%.	1/88	
	Decreased to 5.0% (returning windfall).	1/89	
CIGARETTE TAX			
Idaho	Increased from 9.1 cents a pack to 18 cents.	4/87	6.0
Indiana	Increased from 10.5 cents a pack to 15.5 cents, plus new tax on other tobacco products.	7/87	32.8
Minnesota	Increased from 23 cents a pack to 38 cents.		57.7
Nebraska	Increased from 23 cents a pack to 27 cents.	7/87	6.0
Nevada	Increased from 15 cents a pack to 20 cents.	7/87	6.0
New Jersey	Increased from 25 cents a pack to 27 cents (Done administratively; tax rate is proportional to the price of cigarettes.)	7/87	16-18
North Dakota	Increased from 18 cents a pack to 27 cents.	7/87	5.0
Ohio	Increased from 14 cents a pack to 18 cents.	7/87	40.4
Oklahoma	Increased from 18 cents a pack to 23 cents.	6/87	17.1
Texas	Increased from 20.5 cents a pack to 26 cents.	10/87	54.0
Utah	Increased from 12 cents a pack to 23 cents.	5/87	11.0
Wisconsin	Increased from 25 cents a pack to 30 cents.	9/87	20.9

Table A-14 *(continued)*
1987 STATE TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 88 Revenue Change ($ in millions)*
MOTOR FUEL TAXES			
Delaware	Increased from 13 cents a gallon to 16 cents.	9/87	9.2
Florida	Increased diesel fuel from 9.6 cents a gallon to 14.6 cents.		N/A
Maryland	Increased from 13.5 cents a gallon to 18.5 cents.	6/87	117.5
Mississippi	Phase-in increase from 9 cents a gallon to 18 cents by 1/89 and repealed 6% sales tax on gasoline.		N/A
Missouri	Increased from 7 cents a gallon to 11 cents.	6/87	120.0
Montana	Increased from 17 cents a gallon to 20 cents.	7/87	12.5
Nevada	Increased from 13 cents a gallon to 16 cents.	7/87	17.1
	Increased to 18 cents a gallon.	7/88	
New Mexico	Increased from 11 cents a gallon to 14 cents and from 11 cents to 16 cents for special fuels.	7/87	55.0
North Dakota	Increased from 13 cents a gallon to 17 cents.	7/87	13.0
Ohio	Increased from 12 cents a gallon to 14.7 cents.	7/87	143.1
Oklahoma	Increased gasoline and special fuels from 10 cents a gallon to 16 cents.	5/87	104.3
	Increased diesel fuel from 10 cents a gallon to 13 cents.	5/87	12.0
Oregon	Increased from 12 cents a gallon to 14 cents.	1/88	15.0
	Increased to 16 cents.	1/89	
	Increased to 18 cents.	1/90	
Pennsylvania	Increased diesel fuel from 6 cents a gallon to 18 cents to offset revenue loss due to court case.		
South Carolina	Increased from 13 cents a gallon to 15 cents.	7/87	60.0
	Increased to 16 cents.	1/89	
Texas	Increased from 10 cents a gallon to 15 cents.	9/87	400.0
Utah	Increased from 14 cents a gallon to 19 cents.	5/87	40.0
Wisconsin	Increased from 18 cents a gallon to 20 cents.	8/87	48.0

Table A-14 *(continued)*
1987 STATE TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 88 Revenue Change ($ in millions)*
MISCELLANEOUS TAXES			
Arkansas	Increased tax on light beer and wine.	N/A	N/A
	Increased tax on domestic insurance premiums		
Connecticut	Enacted property tax relief program.		
Dist. of Col.	Retroactively expanded public utilities gross receipts tax to all telecommunications.	7/85	5.0
Florida	Accelerated insurance premium tax.	7/87	46.4
	Decreased phosphate severance tax from $2.23 a ton to $1.79 a ton.	7/87	(6.2)
Idaho	Lottery referendum on November '88 ballot.		
Illinois	Levied sales tax on used car sales.	1/88	8.0
Indiana	Lottery referendum on November '88 ballot.		
Kansas	Decreased oil severance taxes for low-producing wells.		5-6
Louisiana	Three-year exemption for wells drilled.	7/87	(10.0)
	Increased unemployment insurance taxes.		
Minnesota	Increased insurance gross earnings tax.		12.2
	Increased telephone gross earnings tax.		40.5
	Increased liquor-beer excise tax.		7.7
Montana	Decreased coal, oil, and gas severance taxes.		
	Created new workmen's compensation tax equal to 0.3% of payroll.		
Nebraska	Changed paramutual tax.		(4.5)
Nevada	Raised the top rate for the gaming tax from 5.75% to 6%.	7/87	8.5
	Adopted a severance tax.	7/87	10.0
	Increased state property tax from 2 cents per $100 of assessed valuation to:		
	4.7 cents	7/87	
	5.2 cents	7/88	
New Mexico	Decreased natural gas severance tax.		
North Carolina	Decreased unemployment insurance taxes.		
	Increased alcohol beverage taxes.		

Table A-14 *(continued)*
1987 STATE TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 88 Revenue Change ($ in millions)*
Miscellaneous Taxes *(continued)*			
North Dakota	Increased motor vehicle excise tax from 5% to 5.5%.	7/87	3.0
	Decreased coal severance tax from $1.04 a ton to $.75 a ton.	7/87	(5.5)
	Decreased oil extraction tax.	4/87	(1.0)
	Repealed oil extraction exemption.	7/87	2.0
	Lottery initiative on June '88 ballot.		
Ohio	Imposed corporate income tax on long-distance phone companies.	7/87	15.0
	Imposed sales tax on long-distance phone companies.	7/87	61.1
	Removed long-distance phone companies from direct use exclusion.	7/87	4.8
	Repealed interstate long-distance gross receipt tax on phone companies.		(32.5)
Oklahoma	Repealed corproate conservation excise tax credit.		0.8
	Raised alcohol excise taxes.	6/87	7.0
Pennsylvania	Decreased utility gross receipts tax.	1/88	(10.4)
	Increased hazardous waste tax.	1/88	11.7
South Carolina	Ended 3% merchants' discount for collecting sales tax.	8/87	70.0
	Eliminated remaining business inventory taxes.	FY89	(120.0)
South Dakota	Increased alcohol beverage taxes.		
Texas	Increased motor vehicle sales tax from 5% to 6%.	9/87	117.0
	Increased franchise tax.	1/88	211.0
Virginia	Froze public utility gross receipt taxes at '87 level for one year.		23.3
	Restructured insurance premium tax.		5.1
	Lottery referendum on November '87 ballot.		
Washington	Increased motor vehicle excise tax from 2.354% to 2.454%.	1/88	6.8
West Virginia	Increased unemployment insurance taxes.		
Wisconsin	Phase-out inheritance tax over 5 years.	1/88	(1.2)
	Decreased utilities tax.		(6.9)

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Fiscal Survey of the States

March 1988

National Association of State Budget Officers

National Governors' Association

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PREFACE

The *Fiscal Survey of the States* is published semi-annually by the National Association of State Budget Officers (NASBO) and the National Governors' Association (NGA). The series was started in 1977. The survey presents aggregate and individual data on the states' general fund receipts, expenditures, and balances. While not the totality of state spending, these funds are used to finance most broad-based state services, and are the most important elements in determining the fiscal health of the states. A separate survey that includes all state spending is also conducted annually.

The field survey on which this report was based was conducted by the National Association of State Budget Officers from January through March 1988. The questionnaires were completed by Governors' state budget officers in fifty states.

Fiscal 1987 numbers are actual amounts; fiscal 1988 are estimated amounts; and fiscal 1989, in most cases, reflects the budget proposal as submitted by the Governor. Fiscal 1988 will close for forty-six states on June 30, 1988. New York's fiscal year ends on March 31, 1988. Texas' fiscal year will close August 31, 1988, and Michigan's and Alabama's on September 30, 1988.

The *Fiscal Survey of the States* is the result of a cooperative effort of the National Governors' Association and the National Association of State Budget Officers. Text and data for the report were written and assembled by Karen M. Benker, Larry Dzieza, Karen Farrell, and Judy Matteucci, with additional support provided by Barbara Tymann and Arlene Preston of the National Association of State Budget Officers. Rae Young Bond of the National Governors' Association edited the survey.

EXECUTIVE SUMMARY

After last year's extraordinary number of budget balancing actions, the 1988 legislative sessions appear to be relatively uneventful. Clearly, 1988 is a beneficiary of hard budget decisions made during 1987.

Last year twenty-four states cut their budgets in mid-year; this year only eleven states approved cuts. Last year thirty-four states raised tax levels; this year only fourteen states are considering tax increases. Last year twenty-four states adopted moderate to major reforms of their tax systems. Eighteen states increased the standard deduction, seventeen states raised the personal exemption, thirteen states adopted new tax bracket structures, and twelve states lowered tax rates. These actions was taken primarily to return the $6 billion "windfall" resulting from an expanded tax base back to the taxpayers. By year's end, approximately 80 percent of the windfall had been returned to taxpayers. This year only six states may consider tax reform.

Following these budget-cutting and tax initiatives adopted in 1987, states in 1988 have elected to stay the course on expenditure and revenue policy. With an uncertain economic climate, states are reluctant to initiate major departures from current policy.

Major findings of this survey include:

- States are keeping spending under control. The projected fiscal 1988 spending increase is 6.4 percent, or 2.3 percent after inflation adjustments. Governors are proposing budget increases for fiscal 1989 of 5.9 percent, or 1.4 percent in real terms.
- Revenue growth continues in line with the growth in the economy. Revenues are expected to grow 5.6 percent in fiscal 1988 and 5.8 percent in fiscal 1989.
- No Governor is proposing a tax rate increase in personal income and sales taxes this year. Only fourteen states have proposed (in a few instances, already passed) a tax increase for fiscal 1989, with a net revenue increase of $0.8 billion to $0.9 billion.
- State ending balances continue to be lean. As a percent of expenditures, fiscal 1988 ending balances equal 1.9 percent and fiscal 1989 has a budgeted reserve of 1.5 percent. In dollar terms, the ending balances are $4.4 billion and $3.7 billion, respectively.

Other findings include:

- Thirty-six states now have established budget stabilization funds or rainy day funds, and two additional states may do so this year. Although they are widely endorsed by states, few states have been financially able to place sufficient dollars into these funds. For fiscal 1988, budget stabilization funds contain $2.3 billion, which equals 1.0 percent of expenditures. In fiscal 1989, the funds will be $2.6 billion, still 1.0 percent of expenditures.
- Education is once again a predominant budget issue. It leads the 1989 agenda in thirty-one states. Education is followed by economic development, human resour-

ces, tax reform, and fiscal stability issues as the areas most frequently listed as priorities by Governors for the coming year.

- Only eleven states implemented budget reduction plans after the budget was enacted for fiscal 1988. These reductions saved $421 million during fiscal 1988. This compares with the twenty-four states that had budget cuts totaling $3.0 billion in fiscal 1987.
- Sixteen states recommended new and expanded programs to help local governments meet their 1989 budgets. These programs distribute increased aid through a variety of mechanisms. These states are assuming programs traditionally funded by local units of government, compensating localities for property exempted from local taxation, allowing expanded revenue raising capabilities, and expanding local aid programs.
- Tax and expenditure limitations continue to be critical issues in selected states.
- As a result of overall economic conditions, twenty-seven states did not propose any increase in benefit payments for Aid to Families with Dependent Children.
- On a regional basis, the northeastern states continue to enjoy strong economic growth. Midwestern farm states and western energy states appear to have bottomed-out of their regional recessions and are beginning to see a few signs of an improving economy. Southern states are diverse: some states are experiencing robust economic growth, but for others the economic picture is substantially less rosy.

I. STATE EXPENDITURE DEVELOPMENTS

State budgets continue to show only moderate spending increases over prior years. Fiscal 1989 budgets proposed by the nation's Governors show a modest 5.9 percent growth in expenditure levels. This level is down slightly from the estimated 6.4 percent expenditure increase shown in fiscal 1988 budgets and points to continuing efforts to maintain the existing level of services in an economic climate that is decidedly unsettled.

A better indicator of the "maintenance of effort" posture being proposed in fiscal 1989 is real budget growth or the growth in budgets after adjusting for inflation. For fiscal 1989, total proposed growth in state budgets is a negligible 1.4 percent, down from the 2.3 percent growth anticipated from actual fiscal 1987 to the estimated fiscal 1988 expenditures.

States and the federal government are essentially proceeding with continuation budgets that provide for inflation adjustments coupled with marginal program expansion. Despite discussion about reducing the federal deficit, the federal budget continues to rise, although at a slower pace. Federal spending increased 5.5 percent in fiscal 1988, with the President proposing an increase of 5.7 percent for fiscal 1989 as estimated by the Congressional Budget Office (see Table 1). State spending over these three years will be slightly higher; however, states are operating with balanced budgets.

Table 1
COMPARISON OF STATE AND FEDERAL NOMINAL AND REAL ANNUAL BUDGET INCREASES, FISCAL 1979-1989

Fiscal Year	*State General Fund*		*Federal*	
	Nominal Increase	*Real Increase*	*Nominal Increase*	*Real Increase*
1989	5.9% est.	1.4% est.	5.7% est.	1.3% est.
1988	6.4 est.	2.3 est.	5.5 est.	2.8 est.
1987	6.2	2.6	1.4	0.9
1986	8.9	3.7	4.6	3.0
1985	10.2	4.6	11.1	7.5
1984	8.0	3.3	5.3	2.3
1983	-0.7	-6.3	8.4	4.7
1982	6.4	-1.1	10.0	1.5
1981	16.3	6.1	14.8	2.6
1980	10.0	-0.6	17.4	4.6
1979	10.1	1.5	9.8	1.9
1979-89 average	8.0%	1.6%	8.5%	3.0%

NOTE: The state and local government implicit price deflator was used for state expenditures in determining real changes and the federal government implicit price deflator was used for federal expenditures.

For the upcoming fiscal year, four states (Alaska, Louisiana, West Virginia, and Wyoming) are proposing budgets that are lower than the prior year's level in nominal dollars. In real terms that account for inflationary changes, twenty states are proposing fiscal 1989 budgets that are smaller than those in fiscal 1988. However, twenty-two states are proposing nominal budget increases between 5.1 to 10 percent, and six states are proposing increases over 10 percent.

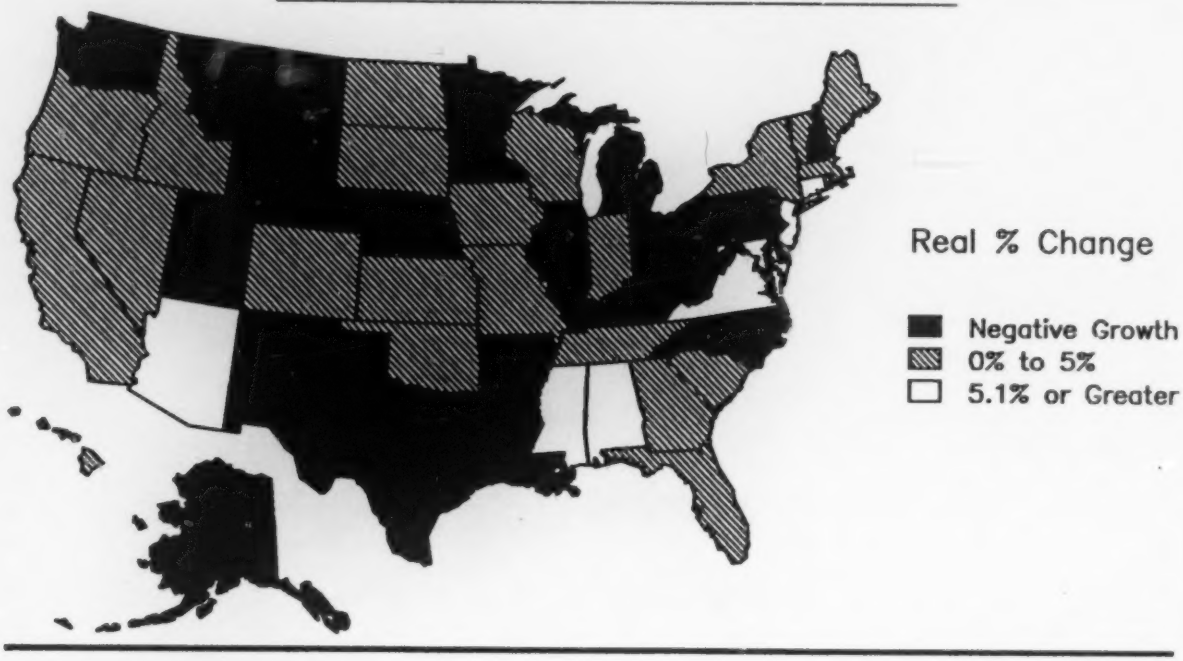
Table 2 summarizes the annual increases in general fund expenditures in both nominal and real terms since fiscal 1987. In addition, Appendix Table A-6 shows the actual, estimated, and proposed expenditures for each state and the change in rates in percentage terms. (See Map 1.)

Table 2
ANNUAL STATE GENERAL FUND EXPENDITURE INCREASES

Budget Growth Rate	Nominal Change			Real Change		
	Fiscal 87 (Actual)	Fiscal 88 (Estimated)	Fiscal 89 (Proposed)	Fiscal 87 (Actual)	Fiscal 88 (Estimated)	Fiscal 89 (Proposed)
Less than 0%	6	5	4	17	13	20
0.0-5.0%	17	10	18	22	22	23
5.1-10.0%	22	22	22	10	14	7
Over 10.1%	5	13	6	1	1	0
Average Growth Rate	6.2%	6.4%	5.9%	2.6%	2.3%	1.4%

NOTE: The state and local government implicit price deflator was used to change nominal dollars into real dollars.

Map 1
REAL EXPENDITURE GROWTH IN FISCAL 1989 STATE BUDGETS



Governors' Budget Priorities

Education is once again a predominant budget issue. It heads the 1989 agenda in thirty-one of the states. Four of those states (Idaho, Mississippi, South Dakota, and Tennessee) plan to focus on teacher salaries, while New Mexico and South Carolina list higher education issues as one of their top priorities.

Education is followed by economic development, human resources, tax reform, and fiscal stability issues as the most frequently listed priorities by Governors for the coming year. The human resources programs, while included under one grouping in this survey, are far more diverse than it appears at first glance. Of the fifteen states listing human resources programs as a top priority for the coming year, Alabama, Delaware, and Idaho are focusing on prenatal/infant mortality issues, while Iowa, Maine, and Missouri are looking at welfare reform programs.

Table 3
GOVERNORS' BUDGET PRIORITIES FOR FISCAL 1989
(Three Issues per State)

EDUCATION (31 states)
Alabama, Arkansas, California, Delaware, Hawaii, Idaho (teacher salary equity), Iowa (property tax relief), Kansas, Kentucky, Maine, Maryland (establish school for sciences and mathematics), Minnesota, Mississippi (teacher salaries), Missouri, New Jersey, New Mexico (higher education), New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina (higher education), South Dakota (teacher salaries), Tennessee (teacher salaries), Utah, Vermont (school construction bond), Virginia, Washington, and Wyoming.

ECONOMIC DEVELOPMENT (22 states)
Alabama, Arizona, California, Colorado, Georgia, Hawaii, Kentucky, Maine, Maryland, Minnesota, Missouri, New Jersey, New Mexico, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Utah, Vermont, Virginia, and Wyoming.

HUMAN RESOURCES PROGRAMS (15 states)
Alabama (infant mortality), Arizona, Delaware (health issues for children and pregnant women), Florida, Hawaii, Idaho (prenatal care), Illinois, Iowa (welfare reform), Kentucky, Maine (welfare reform), Massachusetts (health care for the uninsured, homelessness, and day care), Missouri (welfare reform), New York (AIDS and Medicaid eligibility expansion), Tennessee (indigent health care), and Virginia.

TAX REFORM/TAX CHANGES (10 states)
Arkansas, Iowa, Kansas, Louisiana, Maine, Michigan, Minnesota, Oklahoma, West Virginia, and Wisconsin.

FISCAL STABILITY (6 states)
Idaho, Illinois, Kansas, Louisiana, Nevada, and West Virginia.

OTHER ISSUES
Employment Stabilization Capital Projects: Alaska
War on Drugs: Arizona
Public Safety: California, Illinois
Housing: Connecticut
Environment: Connecticut, Delaware, New Jersey, Pennsylvania, Rhode Island, and Vermont.
Urban Environment: Florida
School Construction: Georgia
Highways: Colorado, Georgia
Government Reorganization, Streamlining, and Efficiency: Mississippi, New Mexico, Texas, and Washington
Budget Format Reform: Mississippi
Corrections: Colorado, North Carolina, Oregon, Utah
Mass Transit: Maryland
State Employees: Alaska, Oklahoma, South Carolina, Texas
Juvenile Justice: South Carolina
Aid to Local Governments: South Dakota, Wyoming

Biennial Budgets

The March 1988 fiscal survey differentiates, for the first time, between states that use annual budgeting systems and states that use biennial systems (see Appendices A-1 through A-6). This change should provide more equitable comparisons of expenditure data between states with biennial budget systems and states with annual budgets. It also should determine, over time, whether there are differences in budgeting patterns that can be identified and explained.

Twenty-one states use biennial budgeting systems and 80 percent of those states budget each fiscal year separately. Four states (North Dakota, Oregon, Washington, and Wyoming) budget for a two-year period with no distinction between fiscal years. Perhaps more importantly, about half of the states with biennial budgets appropriate capital construction budgets for two years at a time (or for the life of the project), which could tend to distort the year-to-year expenditure comparisons of those states. In addition, these states tend to appropriate other one-time expenditures (for example, Nevada appropriates salary increases, certain human service programs, and forest fire suppression costs for two years at a time, while Virginia makes a biennial appropriation for its revenue reserve and economic contingency funds in the first year of their biennium), which, when compared with expenditure rate changes in states, could lead to a misinterpretation of the comparable growth rates for those states.

Another spending distortion that occurs for biennial states is that Governors and legislatures adopt new spending initiatives for the first year of the budget, and the second year is usually only a continuation budget. Therefore, large budget increases will appear the first year, followed by small increases in the second.

Of the twenty-one states with biennial budgets, all but three states (Kentucky, Virginia, and Wyoming) begin their budget period in odd-numbered years. Accordingly, fiscal 1988 and 1989 budgets for most biennial states were approved and signed into law in 1987. Supplemental appropriations and other adjustments are routinely made during the interim legislative session between budget cycles.

State Workforce Issues

Personnel costs are one of the largest components of a state budget, and changes in the size of the workforce or the salary levels for state employees have a direct impact on state expenditures.

Salaries. Across-the-board salary increases proposed in fiscal 1989 range from a high of 6 percent on an annualized basis, to no increases. The highest increases are provided by Hawaii, New Hampshire, and Tennessee. In Tennessee, the size of the increase will vary with the higher amounts going to lower-paid employees. Seventeen states are proposing across-the-board salary increases in the 3.0 percent - 4.0 percent range, although some of these increases are being phased in later during the fiscal year. In addition, many states provide for merit and step increases. However, eight states propose no across-the-board increases for state employees. These states are Arizona, Arkansas, Louisiana, Mississippi, Missouri, Montana, Utah, and West Virginia.

Three states (Maryland, Mississippi, and Rhode Island) reported that classification or grade restructuring studies were underway. The proposed salary increases plus additional explanations are shown by state in Appendix Table A-7.

Other Compensation Issues. Five states (Colorado, Iowa, Michigan, New Mexico, and Pennsylvania) have implemented early retirement plans since the last fiscal survey was taken, which have resulted in significant budget savings. West Virginia is currently considering a plan. Missouri instituted a plan that allows employees to choose from a variety of benefits resulting in $2.5 million in budget savings, and seven states have implemented workforce reductions through hiring freezes, layoffs, privatization programs, statutory employee caps, or attrition.

Budget Adjustments

Eleven states (Arizona, Colorado, Hawaii, Kentucky, Louisiana, Michigan, Missouri, North Dakota, Washington, West Virginia, and Wyoming) implemented budget reduction plans that saved an estimated $421 million during fiscal 1988. Most budget reductions were selectively imposed, generally exempting entitlement programs and statutorily mandated expenditures. In seven of the eleven states, the action to reduce spending was taken by the Governor. There is a possibility that North Dakota's budget reductions may be reinstituted, depending on the outcome of a June 1988 ballot revenue measure. For comparison purposes, twenty-four states took action last year to cut budgets in mid-year.

Fiscal 1988 cuts are relatively small in size. The largest cut occurred in Kentucky, which reduced expenditures by 2.9 percent to save $94 million. Cuts of less than 1 percent occurred in Michigan, North Dakota, and West Virginia. Table 4 (see following page) summarizes the budget reduction action taken by the states during fiscal 1988.

Other budget adjustments were adopted by Florida, Illinois, Kentucky, Texas, and West Virginia, using a combination of borrowing from internal funds, acquiring short-term cash management notes, or delaying certain payments (tax refund or assistance payments) to meet budgetary goals during the year. Louisiana imposed a selective budget reduction, delayed income tax refunds, and borrowed $700 million from internal state funds during the year to meet its budget needs.

Other Expenditure Issues

The survey also requested information concerning two specific expenditure areas within state budgets.

Aid to Families with Dependent Children (AFDC) Benefit Increases. Only three states (Alaska, California, and Connecticut) provide automatic cost-of-living adjustments to the monthly welfare stipend. All other states must appropriate increases. For fiscal 1989, eighteen states are proposing to raise AFDC benefits ranging from 1 percent to 10 percent. Twenty-seven states did not propose an increase in benefit payments. In addition, Maine is proposing an increase in its standard of need. Table 5 specifies the proposed changes.

Table 4
STATE BUDGET CUTS ADOPTED IN FISCAL 1988
AFTER THE APPROPRIATIONS BILL HAD PASSED

State	*Amount (in mil.)*	*Cut as % of G.F. Expenditures*	*Action Taken By*	*Selective vs. Across the Board*	*Dates Enacted*	*Notes*
AZ	$61	2.4%	Governor	Selective	Pending	Legislature currently reviewing proposal; would exempt entitlement programs and health care program costs.
CO	24	1.1	Governor	Selective	1/88	Legislature may enact additional cuts. Cuts exclude public safety, agriculture, mental health, and developmental disabilities.
HI	34	1.9	Governor	Selective	7/87	Exempted aid to counties, fixed charges, repairs, and maintenance.
KY	94	2.9	Governor	Selective	7/87 1/88	Exempted school district payments.
LA	42	1.0	Governor	Selective	12/87 1/88	
MI	48	0.7	Legislature	ATB	12/87	
MO	70	2.0	Governor	ATB	6/87 11/87	Exempted aid to schools, Medicaid, statutory disbursements, selected higher education, and mental health programs.
ND	3	0.6	Legislature	ATB	10/87	Funds may be reinstated pending the outcome of a June 1988 ballot issue on a tax measure.
WA	18	0.4	Governor	Selective	7/87	Only agencies with directors appointed by the Governor were asked to comply.
WV	8	0.1	Legislature	Selective	2/88	
WY	19	2.5	Legislature	Both	3/87	Cuts are for Fiscal 1987-88 biennium.

Table 5
COST OF LIVING INCREASES FOR AID TO FAMILIES WITH DEPENDENT CHILDREN
FISCAL 1988 AND 1989

State	*Fiscal 1988*	*Proposed 1989*	*State*	*Fiscal 1988*	*Proposed 1989*
Alabama	0.0%	0.0%	Montana	0.0%	N/A
Alaska*	2.0	4.0	Nebraska	0.0	0.0
Arizona	0.0	0.0	Nevada	14.0*	0.0
Arkansas	6.8	Pending	New Hampshire	2.0	0.0
California*	2.6	5.2	New Jersey	5.0	0.0
Colorado	2.9*	N/A	New Mexico	2.0	0.0
Connecticut*	1.9*	3.6	New York	8.0*	0.0
Delaware	0.0	*	North Carolina	12.2	N/A
Florida	4.0*	4.5	North Dakota	4.0	4.0
Georgia	2.5	10.0	Ohio	0.0	4.0*
Hawaii	0.0	0.0	Oklahoma	0.0	10.0
Idaho	0.0	0.0	Oregon	4.0	2.0
Illinois	0.0	0.0	Pennsylvania	5.0*	0.0
Indiana	12.5	Pending	Rhode Island	4.0	4.0
Iowa	0.0	0.0	South Carolina	0.0	0.0
Kansas	1.5	0.0	South Dakota	0.0	0.0
Kentucky	0.0	5.0	Tennessee	2.7	3.0
Louisiana	0.0	0.0	Texas	0.0	0.0
Maine	2.5	10.0*	Utah	0.0	0.0
Maryland	4.0	5.0	Vermont	2.0	3.0
Massachusetts	7.0	5.5	Virginia	0.0	0.0
Michigan	3.0	0.0	Washington	0.0	0.0
Minnesota	0.0	0.0	West Virginia	N/A	0.0
Mississippi	0.0	0.0	Wisconsin	0.0	0.0
Missouri	1.0	1.0	Wyoming	0.0	0.0

NOTES:

Alaska:	Automatic cost of living adjustments tied to the Social Security Administration's COLA.
California:	Automatic cost of living adjustments tied to Consumer Needs Index, December to December.
Colorado:	Increase effective January 1988.
Connecticut:	Automatic cost of living adjustments tied to Consumer Price Index–Urban Wage Earners.
Delaware:	Increase varies depending on size of family.
Florida:	Increase effective January 1988.
Maine:	Increase of 10% in the Standard of Need.
Nevada:	For recipients with housing allowances, the increase is 5.3%.
Ohio:	Increase effective January 1989.
Pennsylvania:	Increase effective January 1988.

Aid to Local Governments. Sixteen states want to add programs to help local governments meet their 1989 budgets. (See Table 6.) These programs distribute increased aid through a variety of mechanisms. These states are assuming programs traditionally funded by local units of government, compensating localities for property exempted from local taxation or removal from the tax rolls, allowing tax increases or relaxing local tax reductions, and expanding local aid programs.

TABLE 6
GOVERNORS' PROPOSALS TO AID LOCAL GOVERNMENT, FISCAL 1989

California
Appropriate $370 million for support of trial courts and $15.3 million for a matching grant program.

Connecticut
Increase payment in lieu of taxes for correctional facilities.

Idaho
Provide local governments with $8.6 million as their share (32.33 percent) of a recommended 5 percent increase in motor fuel tax.

Massachusetts
Appropriate $208.3 million in new needs-based aid to cities and towns.
Assume financial responsibility for county jails (state will be liable for all increases in costs).

Minnesota
Provide for state to take over 100 percent of non-federal share of income maintenance costs.
Appropriate new aid for cities.

Missouri
Adopt Rural Economic Development Challenge Grants.
Reduce two-thirds voter approval requirement for local bond issues.
Propose Missouri Main Street program.

Montana
Enacted a 4 percent accommodation tax beginning in fiscal 1988. Some of these revenues will aid local governments in tourism promotion.

New Hampshire
Provide aid for a homeless program.

New Jersey
Increase aid to local government by $510 million, with the largest increase of $310 million for school districts and $149 million for Medicaid.

Rhode Island
Expand reimbursement of tax-exempt property.
Increase assistance for roads.
Expand educational aid.

South Carolina
The House passed a Local Government Finance Act last session allowing local governments the option to levy a 1 percent sales tax. The proposal is pending in the Senate.

Tennessee
Pay 100 percent of teacher pay raises.

Utah
Assume responsibility for the court system with the fees and fines transferred to the state, which will cover first year expenses; however, future costs will not be covered and state will supplement with state funds.

Vermont
Assist with Lake Champlain water quality and sewage abatement.

Virginia
Increase the state share of elementary-secondary education costs from 50 percent to 52 percent and provide more equalization of state payments based on ability to pay.
Provide an additional $65 million to address unmet needs for community-based mental health, mental retardation, and substance abuse services.
Provide $45 million to establish a new housing program to include housing rehabilitation loans, home purchase assistance, a deferred payment loan plan for new multi-family housing, and programs to shelter the homeless.
Create a program to promote economic development in Southwest Virginia and other distressed communities through the construction of industrial parks.

West Virginia
Grant home rule to local governments.

Wisconsin
Increased school aid to be financed by sales tax base expansion, coupled with changes in school aid formula, restructuring of property tax credits, and limits on local government expenditures and tax levies.

Wyoming
Increase revenues directed to local government: $8 million from cigarette tax increase for fiscal 1989-90 biennium; $7.6 million from out-of-state sales tax distribution; $6 million from severance tax and mineral royalties.

Tax and Expenditure Limitations

Twenty states have statutory provisions or constitutional amendments that limit annual expenditure increases through a formula that determines how much a state is allowed to spend each year. These are called tax and expenditure limitations, or TELs. Spending ceilings are usually determined by such factors as annual increases in the consumer price index, state personal income, or state population.

Tax and expenditure limitations were products of the tax revolt that occurred in the late 1970s. Although the initial fever pitch of tax cutting has decreased considerably, each year new methods to control state and local government spending are proposed. Some of the limitations set ten years ago have now kicked into effect for the first time.

California adopted its limitation in 1979, a year after Proposition 13. The limit was triggered for the first time last year, which led the Governor and legislature to adopt a $1.1 billion tax rebate. Efforts are underway to place two citizen initiatives on the June 1988 ballot that would loosen the constitutional limit. Public sentiment in California appears to be building for higher state spending in education and transportation.

Oregon also reached its expenditure limit last year and temporarily exempted certain appropriations from the limit. The Governor is currently studying the issue. A citizen initiative may materialize to place the spending limit in the state constitution, thereby making it more difficult for the state to exceed the ceiling.

The Governor in Wisconsin has proposed a new limit for both state and local spending. The local limit would freeze property taxes for several years and then later allow increases equal to the consumer price index (CPI). For state government, the limit for the first three years would be tied to the CPI; in subsequent years, growth would be held to changes in the state per capita personal income.

New Jersey was the first state to adopt a tax and expenditure limitation in 1976, but it later expired. There is some interest in the legislature to reenact the limitation this year.

II. STATE REVENUE DEVELOPMENTS

The 1988 legislative sessions promise to be uneventful on the tax front. This is in sharp contrast to 1987, when thirty-two states had to determine whether to keep or return the income tax "windfall" arising from federal tax reform; when twenty-four states made moderate to major reforms of their income tax system; and when thirty-four states raised tax levels. In addition, other states and the business community watched Florida closely in 1987 as it adopted and later repealed a sales tax on services.

After the tremendous amount of change in state tax rates and tax bases in 1987, it is to be expected that the following year's activity will be quiet in comparison.

Annual Revenue Growth

As a result of state balanced budget mandates, the growth in revenues and the growth in expenditures closely match. In fiscal 1987, revenue growth was slightly higher than expenditures, with rates of 8.2 percent and 6.2 percent, respectively. For fiscal 1988, revenue growth of 5.6 percent trails slightly behind expenditure growth of 6.4 percent. And for the upcoming year, forecasts show almost identical revenues and expenditure increases of 5.8 percent and 5.9 percent, respectively.

Only three states (Oregon, West Virginia, and Wyoming) are reporting receiving less revenue in fiscal 1988 than the prior year. In Oregon's case, this represents a tax cut; however, for Wyoming it is more of a reflection of an unstable energy economy. Projections for fiscal 1989 indicate five states with lower revenue collections than in fiscal 1988 (Alaska, Louisiana, Minnesota, New Hampshire, and Wyoming). Again, three of these states are highly dependent upon the market price of oil and natural gas.

Outlook for National and State Economies

State revenue growth is a direct reflection of the national economy. As the gross national product (GNP) changes, so do state tax collections. Most economists are forecasting real GNP growth of about 2 percent in 1988, down markedly from the 1987 growth rate of 3.8 percent. Some economists are predicting a recession in the near future as the long-running economic expansion that began in 1983 comes to an end; however, there is no consensus among economists as to what to expect in the upcoming year.

States based their 1989 revenue predictions on a variety of GNP forecasts. The majority, twenty-six states, predicted that real GNP will grow between 2 and 3 percent; three states expected almost no growth; ten states forecasted growth of 1 to 2 percent; and five states chose the optimistic forecast that the GNP would grow 3 percent or more. The only regional trend in this survey response was that six out of eleven southwestern states expect a poor economy in which the GNP grows less than 2 percent.

States were also asked whether their fiscal 1989 revenue/economic forecasts showed state personal income growing faster, slower, or at the same rate as in fiscal 1988. The results are inconclusive, showing states almost evenly divided between the three options. Eighteen states expect personal income to increase faster in the upcoming fiscal year than in fiscal 1988; fourteen states expect slower growth; and fifteen states expect the same level of growth. Once again, regional trends are hard to find; however, eight out of ten southeastern states expect the same

or slower state growth, while three out of four southwestern states predict economic improvement.

Revenue Collections for Fiscal 1988

The vast majority of states report that total revenue collections for fiscal 1988 are either on target or above projections used when the budget was adopted. Twenty-four states are above the original revenue forecast and nineteen states are on target, while only seven states expect to end the fiscal year below their forecasts. Appendix Table A-8 shows how each state reported.

Overall, twenty-one states are experiencing higher than expected personal income tax collections. This could be attributed partly to the major overhaul of income tax systems last year and the unknown factor of how taxpayers will alter investment and spending practices as a result of the tax changes. Only seven states show personal income tax collections lower than their budget projections. Numerous states are reporting unusual amounts of capital gains realizations due to federal tax law changes. Major changes in the tax base make it difficult for states to forecast income tax revenues for tax years 1987 and 1988.

As another result of federal tax reform, several states have reported changes in their income tax collections due to altered withholding patterns. Because federal reform required taxpayers to fill out new W-4 forms, state income tax collection patterns have changed. Colorado and Utah reported that taxpayers appear to be voluntarily overwithholding, while Ohio and Oregon are experiencing larger than anticipated payments of quarterly estimated taxes.

On the sales tax side, current projections compared to original estimates are almost evenly divided between the categories of above original estimate, below, or estimates are unchanged. (See Appendix Table A-8 for more details.)

National retail sales, which affect state sales tax collections, were slightly better than expected, especially in light of the October 19 stock market crash and predictions of a poor Christmas retail season. This grim scenario did not materialize, although consumer spending has slowed down significantly from the highs in the early part of the current economic expansion cycle.

Did the stock market crash affect state fiscal policy? Only five states noted that they expect slight modifications in policy for the upcoming year. Florida and Washington adjusted their spending plans in anticipation of reduced revenues. Both of these states have no personal income tax and rely heavily on sales tax revenues. Tennessee will take the stock market crash into consideration when setting the state pension contribution rates for the two years beginning in fiscal 1989. On the other hand, Massachusetts expects a second wave of capital gains realizations at the end of 1987 that may boost revenues. And in a situation unique to New York, forecasters there have incorporated into their revenue estimate projected layoffs and bonus reductions in the financial services industry centered in New York City. However, overall, most states do not expect the current condition of Wall Street to affect state finance.

A Review of State Tax Reform

State income tax reform swept the country last year in response to the federal 1986 Tax Reform Act. As a result, eighteen states increased the standard deduction, seventeen states raised the personal exemption, thirteen states adopted a new tax bracket structure, and twelve states lowered tax rates. These actions were taken primarily to return the $6 billion "windfall"

resulting from an expanded tax base back to the taxpayers. By year's end, 78 percent of the windfall, or $4.7 billion, went back to taxpayers and not state treasuries. In addition to the windfall issue, state tax reform made many state tax structures more fair by alleviating the tax burden on the state's lower-income citizens. Over the years, inflation and other economic factors distorted state income tax systems, and reform measures attempted to correct these distortions.

Despite all the tax changes occurring last year, a few states had postponed action and will deal with tax reform this year. In Arizona, Iowa, and Maine, temporary measures were taken to resolve these tax issues. It is likely that Iowa will make the temporary changes permanent in the 1988 legislative session and that Arizona will continue the temporary action for the short term. However, in Maine, a tax study commission is recommending that the state collapse eight tax brackets to only four, decrease the top tax rate from 10 percent to 8 percent, and revert the personal exemption and standard deduction to a tax credit.

Kentucky and Massachusetts did not change their tax systems last year in response to federal tax reform. In Massachusetts, conforming to the new federal tax base was not a priority since the state tax base is substantially different from the federal base. However, this year the proposal to conform where applicable will be considered. It would create a relatively small $67 million revenue gain to the state. As for Kentucky, the state had no legislative session last year and debate has begun in the 1988 session as to whether any changes are necessary.

Kansas is also seriously considering reform. Since the state automatically conforms to the federal base, a $143 million "windfall" accrued to the state last year. In the meantime, the Governor established a tax reform commission to recommend changes to be considered in 1988. As a result, the Governor proposes to return $21 million of the windfall to the taxpayers, while reducing eight tax brackets to two with rates of 4.15 percent and 5.4 percent, increase the standard deduction and personal exemption, and eliminate the deduction for federal taxes.

Alabama is the only other state where a serious tax reform measure is pending this year. However, the Governor is concerned that the issue may detract from his primary agenda item of education reform.

In summary, considerable tax reform was undertaken in last year's legislative session, so just a handful of states are considering the issue in 1988. In the near future, some states may make minor readjustments to their tax systems, but for now the tax reform wave appears to be nearing its end.

Proposed Fiscal 1988 Tax Changes

As evidence that 1988 will be uneventful tax year for states, there are no gubernatorial proposals to increase the tax rate for sales or income taxes at this time. This is highly unusual, since even in quiet years, several states raise one of the two main revenue sources in state finance. Most budget stabilizing action took place last year via budget cutbacks and tax increases. This year is a beneficiary of hard actions taken in 1987.

Another check on government tax increases may be several citizen tax initiatives that are beginning to circulate and may appear on the 1988 ballot. Petitions may soon circulate in California, Colorado, Montana, Oregon, and Utah.

Twelve states have proposed and three states have already adopted tax increases for fiscal 1988, amounting to a modest $800 million to $900 million in new net tax revenues. As compared to last year, thirty-four states raised taxes for a net gain of $6 billion. Most of the activity this year centers on continued broadening of the base of sales and income taxes, and several states are proposing increases in gasoline excise taxes. (See Appendix Table A-9 for individual state tax proposals.) Table 7, on the following page, provides historical information for comparison purposes on the size of state tax changes since fiscal 1964.

Personal Income Taxes. Vermont is one of two states proposing a tax rate decrease, reducing the rate from 25 percent of federal tax liability to 24 percent for the 1988 tax year. Coupled with the adoption of an earned income tax credit, the state will decrease income taxes by $8.5 million. Oklahoma is considering lowering the top rate from 17 percent to 10 percent under one method of tax calculation, and also proposing a new low-income senior citizen exemption, for a total state loss of $4 million. In addition, several states have phased in personal income tax changes that will go into effect this year.

To gain revenue, four states will include more income as taxable to broaden the base. Arizona proposes to eliminate a renters' credit; Michigan's tax base will include lottery winnings and military pay, and will limit the property tax circuitbreaker to be used for additional school funding; New Mexico will permanently repeal certain credit provisions; and Wisconsin will reduce its two-earner credit for married taxpayers.

Business Taxes. Relatively minor tax base changes are being proposed in Arizona, Idaho, Kansas, and Michigan for a revenue gain. Rhode Island is proposing to eliminate the net worth tax for corporations, lowering state tax collections by $2.9 million.

Sales Taxes. South Dakota will allow the sales tax to decrease from 5 percent to 4 percent earlier than originally scheduled. Last year the sales tax was raised to fund an economic development program; once $40 million accrued to the fund, the temporary tax increase was lifted.

Kansas will exempt business machinery and equipment from the sales tax. Arizona and Washington will extend the sales tax base to some new goods; Idaho wants to repeal the automobile trade-in exemption and tax automobile and miscellaneous repair services; and Wisconsin may extend the sales tax to some real estate rentals, consumer utilities during winter months (the state already taxes non-winter utilities), and sewerage and septic services.

Cigarette Taxes. The Iowa legislature has already passed a tax increase on cigarettes, raising the rate from 26 cents per pack to 34 cents. The top rate is scheduled to decrease to 31 cents next year. The Governor originally proposed increasing the tax to 38 cents per pack. Wyoming's Governor submitted a proposal to increase the cigarette tax from 8 cents per pack to 20 cents, and West Virginia is considering a hike from 17 cents per pack to 22 cents.

Motor Fuel Taxes. New Jersey acted in January to raise the motor fuel tax from 8 cents per gallon to 10.5 cents and South Dakota acted in March to increase the tax from 13 cents to 18 cents per gallon. Seven pending proposals include: Idaho, from 14.5 cents per gallon to 19.5 cents; Maine, from 14 cents to 19 cents; Maryland, from 18.5 cents to 22 cents; West Virginia, from 10.5 cents to 15.5 cents; Indiana, gasoline tax from 14 cents to 15 cents; Vermont, gasoline tax from 13 cents to 15 cents and diesel tax from 14 cents to 16 cents; and Iowa, increasing

from 16 cents per gallon to 18 cents in 1988 and 20 cents the following year and diesel 18.5 cents per gallon to 20.5 cents in 1988 and 22.5 cents the following year.

Table 7
SOURCES OF INCREASES IN STATE TAX COLLECTIONS, FISCAL 1964-1989

Fiscal Year	*Total Tax Revenue Collection ($ in billions)*	*$ Change in Total Tax Revenue ($ in billions)*	*% Change in Tax Revenue* [1]	*Net Change Resulting From Political Actions* [2] *(in billions)*	*Change Resulting From Economic Factors* [3] *(in billions)*
1989	N/A	N/A	N/A	$0.8 est.	N/A
1988	N/A	N/A	N/A	6.0	N/A
1987	$246.6	$18.5	8.1%	0.6	$17.9
1986	228.1	12.8	5.9	-1.1	13.9
1985	215.3	18.3	9.3	0.9	17.4
1984	197.0	25.6	14.9	10.1	15.5
1983	171.4	8.8	5.4	3.5	5.3
1982	162.7	12.9	8.6	3.8	9.1
1981	149.7	12.7	9.2	0.4	12.3
1980	137.1	12.1	9.8	-2.0	14.1
1979	125.0	11.7	10.3	-2.3	14.0
1978	113.3	12.2	12.0	0.5	11.7
1977	101.1	11.8	13.3	1.0	10.8
1976	89.3	9.1	11.4	1.0	8.1
1975	80.2	5.9	8.0	-0.4	6.3
1974	74.2	6.1	9.0	-0.5	6.6
1973	68.1	8.2	13.7	0.9	7.3
1972	59.9	8.3	16.2	5.0	3.3
1971	51.5	3.6	7.5	.8	2.8
1970	48.0	6.0	14.4	4.0	2.0
1969	41.9	5.5	15.2	1.3	4.2
1968	36.4	4.5	14.1	2.5	2.0
1967	31.9	2.5	8.7	0.5	2.0
1966	29.4	3.3	12.5	1.3	2.0
1965	26.1	1.9	7.8	0.1	1.8
1964	24.2	2.1	9.6	1.0	1.1

NOTES:

1/ Increase in actual tax collections divided by previous year collections.

2/ Political action includes discretionary legislative actions such as adopting or repealing a tax, raising or lowering a tax rate, and changing the tax base. Does not include administrative tax adjustments or changes in tax collection procedures. Generally does include temporary taxes that were made permanent (e.g.: if a state adopted a one-year temporary tax increase in 1982 and then extended it in 1983, and made it permanent in 1984, then the tax increase was counted for three years because it required legislative action to maintain a rate that was scheduled to decrease). If a tax change is phased in over several years, only the first year of the tax change is counted. Figures in this column represent legislative tax changes that resulted from actions passed in the prior legislative session (e.g.: Fiscal 1989 tax changes were passed in the 1988 session); therefore, these figures represent revenue projections presented to legislators when they passed the tax change.

3/ Economic growth (or decline) and inflation's effect on revenue growth.

SOURCE: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1985-86 Edition, p. 77, based on data from the Tax Foundation and the National Conference of State Legislatures. Fiscal 1988 and 1989 data provided by the National Association of State Budget Officers.

Miscellaneous Taxes. Idaho and Michigan propose increases in the insurance premium tax. Iowa and Wyoming are interested in alcohol beverage tax hikes. South Carolina intends to raise its low-level radioactive waste disposal tax; Vermont proposes increases in automobile registration fees and realty transfer tax; and West Virginia wants to raise the soft drink tax. Both Mississippi and Minnesota may consider lottery legislation.

III. YEAR-END GENERAL FUND BALANCES

The size of the aggregate ending balance of state general funds is one way to measure the fiscal health of the states. The size of the ending balance for an individual state can be misleading if looked at in isolation, and it is not always a good comparative measure of long-term fiscal health. However, when looked at in the aggregate, the total provides a good indication of the overall economic fortune of the states.

Since 1985, year-end balances have been declining slightly every year. For fiscal 1987, the actual ending balance is $4.7 billion, which equals 2.1 percent of total expenditures. For fiscal 1988, the estimated figure is $4.4 billion, or 1.9 percent. The Governors' proposed budgets for fiscal 1989 project ending balances totaling $3.7 billion, which is 1.5 percent of total expenditures.

The size of ending balances differs among the states. Louisiana and Texas ended 1987 with deficits. These oil-producing states experienced economic shock with the decline in oil prices and production about eighteen months ago. If these states were excluded from aggregate ending balance figures, the fiscal 1987 total would rise to $6 billion. Texas has turned to short-term borrowing to help ease cash-flow problems until new authorized revenues come into the treasury to eliminate the deficit. Louisiana has adopted a four-year plan to erase the deficit using oil and gas bonuses and other windfalls.

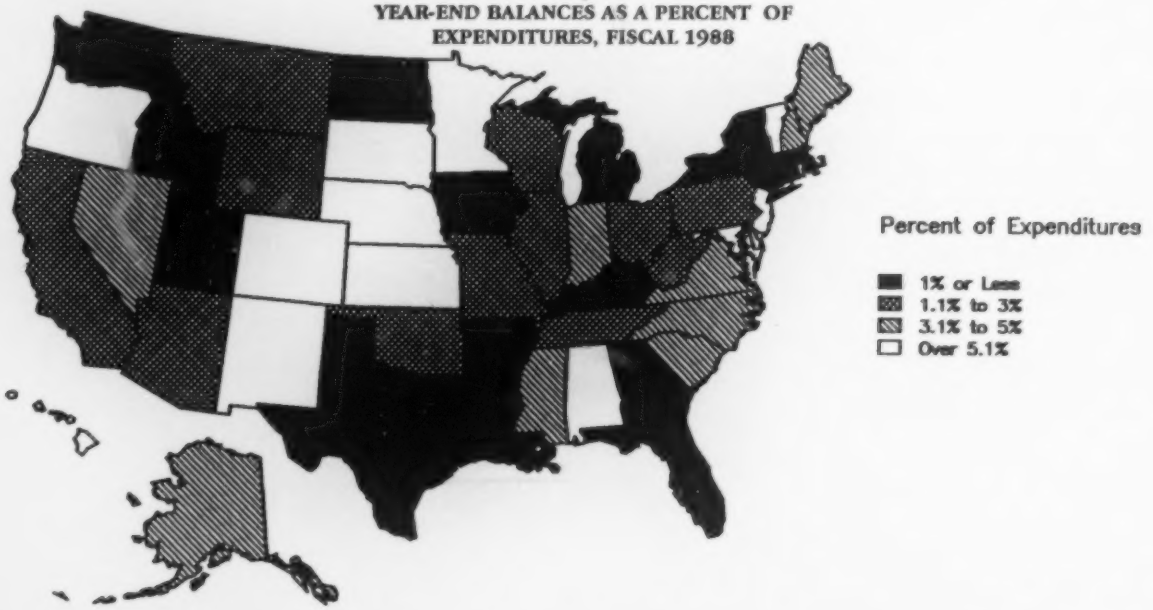
Louisiana, North Dakota, Texas, and Washington also expect deficits in fiscal 1988. The negative balances in North Dakota and Washington are quite small and occur as a result of biennial budgeting where the budget is required to be balanced at the end of the two-year budget period. If the states posting deficits were not included, the aggregate ending balance in fiscal 1988 would increase from $4.4 billion to $6 billion. Louisiana is the only state projecting a deficit in fiscal 1989.

About half of the states are operating with thin margins. Twenty-seven states are projecting fiscal 1988 ending balances of 3 percent or less, increasing to thirty-four states in fiscal 1989 (see Table 8 and Map 2). On the positive side, fourteen states are forecasting ending balances of 5 percent or more in fiscal 1988 and nine states in fiscal 1989.

Table 8
GENERAL FUND YEAR-END BALANCES AS A PERCENTAGE OF EXPENDITURES

	Fiscal 1987 Actual (# of States)	*Fiscal 1988 Estimated (# of States)*	*Fiscal 1989 Proposed (# of States)*
1.0% or less	14	15	25
1.1% - 3.0%	12	12	9
3.1% - 5.0%	9	9	7
Over 5.1%	15	14	9
Average Percentage	2.1	1.9	1.5

Map 2
YEAR-END BALANCES AS A PERCENT OF EXPENDITURES, FISCAL 1988



In fiscal 1988, the combined surpluses of California, Hawaii, and New Jersey make up 55 percent of the estimated aggregate ending balance. California and Hawaii are included in the group for fiscal 1989, along with Massachusetts, representing 53 percent of the aggregate total. Although California maintains a large dollar balance, as a percentage of its own expenditures in fiscal 1988 it represents only 2.9 percent.

Table 9, on the following page, provides the historical background for aggregate state year-end balances since fiscal 1978. The high point in ending balances came in fiscal 1980 when balances equaled 9 percent of expenditures (see Table 9 and Graph 1). The low point occurred in fiscal 1983, during the recession, when balances dipped to 1.3 percent of spending. In fiscal 1985, ending balances were 4.3 percent of expenditures. Since that time, balances have decreased, although as a percentage they have started to stabilize at an average of 1.8 percent for fiscal 1987, 1988, and 1989. Also since 1985, more and more states have been establishing budget stabilization funds. Possibly, funds are being set aside in rainy day funds, instead of being counted as ending balances.

A comparison of ending fund balances projected for 1987 and 1988 in the last three fiscal surveys shows that the actual ending balance or the nearest estimate in each year was slightly higher than the projection. In March 1987, using the Governors' proposed budgets for fiscal 1988 in the aggregate, ending fund balances were projected to be $3.4 billion, while budget stabilization funds were to be $2.2 billion. The September 1987 Fiscal Survey showed that the appropriated figures left a $3.0 billion aggregate ending balance and $2.3 billion budget stabilization fund. The current survey indicates that ending fund balances for fiscal 1988 should total $4.4 billion and budget stabilization funds will be $2.3 billion.

A similar pattern developed for fiscal 1987. The March 1987 survey estimated $1.6 billion for aggregate ending balances. Those estimates were revised in the September 1987 survey, showing estimated ending balances of $3.5 billion. The actual figures reported in the most recent survey indicate ending balances of $4.7 billion. Budget stabilization fund totals found in the three different surveys were $2.0 billion, $1.9 billion and $2.0 billion, respectively. These figures do not represent any significant change.

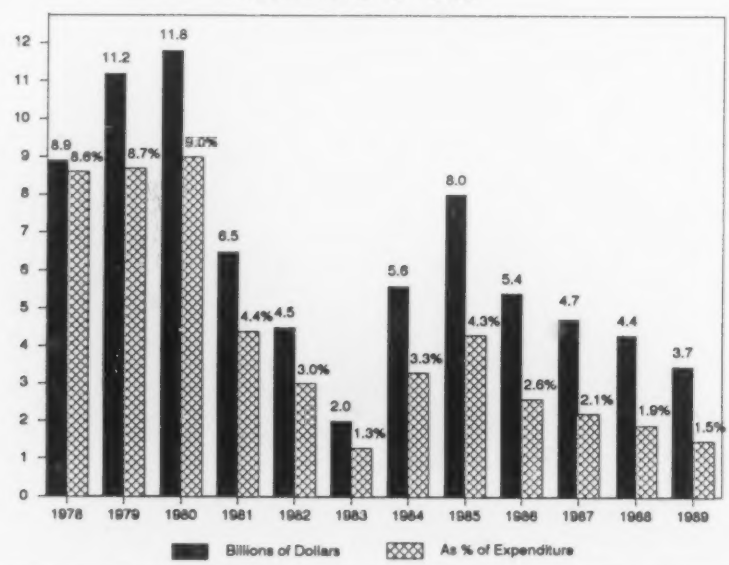
Table 9
SIZE OF GENERAL FUND YEAR-END BALANCES, FISCAL 1978-1989*

Fiscal Year	*Year-End Balances ($ in Billions)*	*Balance as a Percent of Expenditures*
1989 est.	$3.7	1.5%
1988 est.	4.4	1.9
1987	4.7	2.1
1986	5.4	2.6
1985	8.0	4.3
1984	5.6	3.3
1983	2.0	1.3
1982	4.5	3.0
1981	6.5	4.4
1980	11.8	9.0
1979	11.2	8.7
1978	8.9	8.6

* Does not include balances from budget stabilization funds.

Graph 1

Size of General Fund Year-End Balances, Fiscal 1978 to 1989



Several policies can explain the changes in ending balances:

- Revenue estimators tend to be conservative when forecasting state revenues, since it is easier to adjust to higher revenues than lower revenues, which may call for budget cuts, mid-year tax increases, or employee layoffs;
- The direction of the economy has been difficult to predict and its performance has been stronger than originally forecasted, thereby raising revenues; and
- Most states adopted major changes in income tax bases and rates, which have added tremendous uncertainty in revenue forecasting.

Budget Stabilization Funds

In recent years, thirty-six states have adopted budget stabilization or "rainy day" funds to help buffer state finances from the sharp fiscal disruptions routinely caused by the business cycle (see Appendix A-5). Rather than cut budgets and raise taxes during the middle of a fiscal year, states may use these special reserves during an economic emergency. For this process to work, states must accumulate sufficient funds during good economic times in order to prevent cuts in services and tax increases in bad economic times.

Like state ending balances, budget stabilization funds are small. Actual fiscal 1987 figures show stabilization funds of $2.0 billion or 0.9 percent of expenditures. Fiscal 1988 figures show marginal increases, with $2.3 billion appropriated, which equals 1 percent of expenditures. The Governors' proposed fiscal 1989 figures show the funds at $2.6 billion or 1 percent of expenditures. Increases can be due to the rising number of states creating such funds, as well as concern over a possible recession in the next year.

The latest states to adopt such funds are Nevada and Vermont. Despite the popularity of the funds, seven states have created "rainy day" funds but have not yet had the opportunity to fund them. For fiscal 1989, the Governor of New Jersey has proposed to adopt and fund a budget stabilization fund. Discussion on creating a rainy day fund is also underway in Hawaii.

The largest recent draw-down of a stabilization fund has occurred in Alaska, which used $436 million from its fund for the fiscal 1987 budget in order to avert severe budget cuts and tax increases. Wyoming also has relied substantially on its fund to keep its budget balanced. Wyoming had $117 million in reserve in fiscal 1987, but only $19 million by 1989. These two states, which have suffered economically because of the crisis in the oil industry, serve as examples of how useful "rainy day" funds can be in rough times. Other states drawing down their reserves include Connecticut and Iowa. Indiana plans to increase its reserves from $165 million in fiscal 1987 to $224 million in fiscal 1989. Significant increases in funding have also occurred in Florida, from $103 million in 1987 to $142 million by 1989, and in Pennsylvania, from $51 million in 1987 to a projected $109 million in 1989.

Most other state budget stabilization funds remain fairly constant in size. Unfortunately, only six states have reserves of 5 percent or more in fiscal 1988. These states are Connecticut, Delaware, Indiana, Michigan, Nevada, and Wyoming. In 1989, only Connecticut expects its reserves to fall below 5 percent. Clearly, small reserves can help relieve less serious fiscal conditions, but states will still be unprepared for an extended economic downturn.

IV. REGIONAL FISCAL OUTLOOK

Regional economic trends have shown little change over this past year. The Northeast continues to experience a robust economy; the western energy states are beginning to show signs of recovery from the energy slump; and the South is divided almost evenly between fast growing states and states with weaker economies.

States reporting the strongest growth, as measured by recent state personal income figures, include: California, Connecticut, Florida, New Hampshire, and Nevada. Alaska and Wyoming are reporting actual decreases in personal income, both still feeling the effects of the 1986 oil price plunge. Overall, 1988 may be similar to 1987 in many aspects. Economic stability is forecasted in most sectors, although economists have many opinions on this matter.

New England

The New England region continues to lead the country with the lowest 1987 unemployment rate, averaging 3.4 percent, compared with a national rate of 6.2 percent (see Table 10). New Hampshire has the lowest rate at 2.5 percent and Massachusetts follows at 3.2 percent. Once again, personal income growth for this region is strong at 7.2 percent, although it falls behind growth in the far west region. Using this measure, Connecticut leads the region with exceptional growth of 8.2 percent in personal income (third quarter 1986 to third quarter 1987).

Table 10
REGIONAL BUDGET AND ECONOMIC INDICATORS

	*Weighted Unemployment Rate 1987**	*Weighted Annual % Change in Personal Income ***	*Annual % Change in Population*	*FY 88 Ending Balances as % of Expenditures*	*FY 89 Proposed General Fund Budget Growth (%)*	*# of States in Region*
New England	3.4%	7.2%	0.8%	1.2%	9.0%	6
Mideast	4.8	6.1	0.5	3.0	7.2	5
Great Lakes	7.2	4.5	0.4	1.7	3.9	5
Plains	5.5	5.5	0.4	5.5	5.2	7
Southeast	6.5	6.1	1.4	0.1	4.6	12
Southwest	8.0	3.5	0.8	-3.9	3.9	4
Rocky Mountain	7.5	3.5	0.2	3.3	3.7	5
Far West	6.0	8.3	2.2	3.4	7.2	6
U.S. Average (or total)	6.2%	5.9%	1.0%	1.9%	5.9%	50

SOURCE:
* U.S. Department of Labor, Bureau of Labor Statistics, February 19, 1988.
** U.S. Department of Commerce, Bureau of Economic Analysis, January 1988.

Figures based on third quarter of 1986 to third quarter of 1987.

New England has made a strong comeback from the last decade, when it was hit hard by economic downturns in the 1970s. Its economic base is now built on financial, insurance, real

estate services, and computer technology. This region's well-known higher education institutions have often been cited as contributing to the economic resurgence.

Proposed spending packages for fiscal 1989 for five of the six New England states are all above the national average. New Hampshire is the exception. Tax changes in this region are minimal. Maine and Vermont are proposing gasoline tax increases; Vermont is considering reducing the personal income tax rate; and Massachusetts will update its income tax to the Federal Internal Revenue Code. No state in this region cut its budget after the appropriations bill was enacted into law for fiscal 1988.

Mideast

The mideastern region of the country also shares the strong economy found in New England. Unemployment rates are substantially below average and increases in personal income are slightly above average. Delaware leads the region with the lowest unemployment rate of only 3.2 percent and personal income growth of 6.9 percent.

No budget cuts have been enacted for fiscal 1988 and little is occurring on the tax side of the budget. As for new spending increases for next year's budget, Maryland and New Jersey have the largest increases of 11.6 percent and 11.4 percent, respectively.

Great Lakes

The manufacturing sector of the economy dominates industry in the Great Lakes region. Last year, there was good news for this sector, which registered employment gains, something that had not occurred in recent years. This new strength in manufacturing was attributed to an improved U.S. export picture. Factory utilization also grew markedly this year. Moderate growth in manufacturing is predicted for next year.[1]

However, individual states may fare differently from national averages. Auto plant shutdowns are expected in Michigan and Wisconsin, which will have a negative effect on state finance. Currently, four of the five Great Lakes states have higher than average unemployment rates. The highest is in Michigan at 8.2 percent.

Tax increases are being proposed in Indiana, Michigan, and Wisconsin. In Michigan, the Governor is proposing $250 million in new revenue for school funding.

Michigan cut the fiscal 1988 budget by $48 million in December and the Governor is proposing a 1.1 percent increase for the next budget. Spending increases for fiscal 1989 are also low in and Illinois and Ohio.

Plains

There is good news for agricultural states: the six-year agricultural recession ended in the first half of 1987 and farm income rose sharply.[2]

Although the worst has passed for farm foreclosures, declining farm land value, and the financial instability of farm banks, this sector of the economy still has not gained back the losses incurred during the recession. However, with substantial federal payments to farmers and the painful weeding out of the weakest producers, this sector is beginning to experience a modest improvement.

State finance in the region has also improved from prior years. Although spending programs for next year are still modest, past budget cutting and tax increases will help produce a stable 1988. Only two states, Missouri and North Dakota, have cut fiscal 1988 budgets, and

only Iowa is proposing a tax rate increase. Minnesota is considering some minor tax base changes. Minnesota also registers the strongest personal income growth, using the most recent data available, at 7.0 percent.

Southeast

Florida, North Carolina, and Virginia have exceptionally strong increases in state personal income at 7.6 percent, 7.0 percent, and 6.6 percent, respectively. On the other hand, Louisiana, West Virginia, and Mississippi have unusually low growth figures at 1.7 percent, 3.9 percent, and 4.0 percent, respectively. These last three states also have some of the highest unemployment figures in the country, with Louisiana at 12.0 percent, West Virginia at 10.8 percent, and Mississippi with 10.2 percent.

In addition, Louisiana is the only oil-dependent state that still faces a serious budget situation. For fiscal 1988, the state has a $781 million budget deficit totaling more than 20 percent of its general fund expenditures. West Virginia is also faced with fiscal problems, but they are not as severe as Louisiana's. In West Virginia, the Governor has just received authority from the legislature to borrow $35 million from internal funds to keep the general fund in balance. Both Louisiana and West Virginia plan to have smaller budgets for fiscal 1989 than in the current year. Both rely heavily on the energy sector.

Kentucky is experiencing a revenue shortfall and has enacted two budget cuts this year. The newly elected Governor opposes a tax increase for this year, so additional cuts will be required in next year's budget.

Exceptional population growth is occurring in Florida, North Carolina, and Virginia. Florida continues to lure new residents into its borders at an unusually high rate, showing a 2.8 percent increase in population in 1987 -- almost three times higher than the national average.

Southwest and Rocky Mountain

These two regions comprise most of the energy sector and have related economies. Of the nine states in these regions, all of them rely to some degree on oil, natural gas, and coal, although only five of them derive a significant portion of their revenues from severance taxes. Therefore, when the price of oil plummeted to $10 a barrel in the first half of 1986, taking other energy prices down too, it had grave consequences for the energy states.

Fiscal 1987 state severance tax collections were only $4.1 billion, down a staggering 36 percent from the previous year, according to the U.S. Commerce Department's Census Bureau (see Table 11). For comparison purposes, over the same period total state tax collections increased by 8.1 percent.

Severance taxes comprise a large revenue source for energy states, although in the past several years dependence on this source has been shrinking. For example, Texas raised 26 percent of all of its tax revenue from severance taxes in fiscal 1982, but this figure has now dropped to 10.6 percent. Similarly, Montana formerly derived over 28 percent of its taxes from severance taxes, but this figure has diminished to 17 percent. This remarkable shift in funding state government has caused a painful transition period, forcing most energy states to make substantial budget cuts and raise non-energy taxes.

Currently, states forecast a fiscal 1987 oil price of between $15 and $18 per barrel. If the price of oil declines below this level, it can easily push energy states back into a recession despite the fact that they are gradually becoming less reliant on the energy sector.

Table 11
CHANGES IN SEVERANCE TAX COLLECTIONS

State	Severance Tax Collections ($ in Millions) FY 1987 P*	FY 1982	% Change in Severance Tax from Previous Year FY 1987 P*	Tax as a % Of Total Tax Collections FY 1987	FY 1982	Forecasted Price of Oil ($ Per Barrel) FY 1988	FY 1989
Alaska	$667	$1,572	-53.5%	62.0%	61.9%	$15.96	$16.32
Louisiana	455	982	-32.1	13.4	31.4	17.25	16.00
Mississippi						16.50	17.50
Montana	101	149	-22.3	17.0	28.2	15.11	16.90
New Mexico	235	378	-36.0	14.7	30.8	15.00	17.50
North Dakota	90	187	-38.8	15.9	35.1	16.70	17.40
Oklahoma	370	743	-35.2	14.0	27.4	18.00**	18.00**
Texas	1,182	2,379	-23.8	10.6	26.1	17.40	18.00
Wyoming	260	389	-32.8	42.0	51.0	19.05**	15.60**
U.S. Total	$4,123	$7,830	-35.9%	1.7%	4.8%		

NOTES:
* Preliminary
** Oklahoma: Projected as of 11/25/87. Certified figure was $16.50.
Wyoming: Taxable oil: FY 88 = $16.00/bbl and FY 89 = $15.60.

The unemployment rate for the southwest region is 8.0 percent and for the Rocky Mountain region it is 7.5 percent. These are the highest rates found in any region. Personal income growth is also lethargic, with both regions showing a 3.5 percent annual growth rate, the lowest of all regions. Coupled with these poor economic statistics, the Rocky Mountain region has the smallest 1987 population growth, whereas several years ago it was one of the fastest growing regions. In fact, Wyoming's 3.4 percent population decrease was the largest of any state.

As a result of poor economies, three states have cut fiscal 1988 budgets (Arizona, Colorado, and Wyoming) and three states are calling for tax increases (Arizona, Idaho, and Wyoming). Proposed spending increases are meager for Montana, New Mexico, Texas, and Utah. In Wyoming, spending will decrease by 13 percent.

Far West

The California economy is growing at a healthy rate and skews regional statistics in the Far West because it has the region's largest population. California registered the highest growth in state personal income of all other states, an extremely strong 9 percent. In addition, population growth was very strong at 2.5 percent, compared with the national average of 1.0 percent.

The economies of Hawaii and Nevada are also performing well, with personal income growth at 6.7 percent and 7.6 percent, respectively. The economies of Oregon and Washington are growing at about the same rate as the national economy. However, Alaska is still suffering from the oil bust and registers the sharpest drop in the nation in state personal income at a negative 4.4 percent.

No state in this region is proposing a tax increase this year, and two states, Hawaii and Washington, made small budget cutbacks for the current operating year. These actions were taken more as a precautionary measure, rather than of necessity.

ENDNOTES

1. Economic Review, Federal Reserve Bank of Kansas City, "The U.S. Economy in 1987 and 1988," Volume 72, No. 10, December 1987, p.4.

2. Ibid., U.S. Agriculture on the Mend," pp. 28-29.

APPENDIX

The structure of the survey presumes budgeting identities as follows:

1. Beginning Balance + Revenues + Adjustments = Resources
2. Resources - Expenditures - or + Transfers = Ending Balance
3. Ending Balance, Year 1 = Beginning Balance, Year 2

Adjustments to revenues may include such things as reversions, tax refunds settlement from court cases, surplus property sales, changes in tax collections, and changes in fund dedication. Transfers may be positive or negative, depending on whether monies are flowing in or out of the general fund.

Exceptions to this identity result from rounding numbers and from the practice in a few states of making adjustments between the ending balance in one year and the beginning balance in the next. These exceptions have only a minor impact on the overall results of the survey.

Reporting concepts within this structure vary from state to state, as do definitions of what activities are included in the general fund, although all federal funds and trust funds are usually excluded. If federal funds are excluded, general fund spending comprises about 80 percent of total state spending. Thus, the results of the fiscal survey are not strictly appropriate for comparisons among states. They are more appropriate for comparisons over time within the same state.

Table A-1
FISCAL 1987 STATE GENERAL FUND
($ in Millions)
Actual Figures

STATE	BEGINNING BALANCE	REVENUE	ADJUSTMENTS	RESOURCES	EXPENDITURES	TRANSFERS	ENDING BALANCE	BUDGET STAB. FUND
STATES WITH ANNUAL BUDGETS								
ALABAMA	9	2,697	(6)	2,699	2,630		70	
ALASKA	(74)	1,753	771	2,450	2,431		20	0
ARIZONA	40	2,422		2,462	2,406		56	
CALIFORNIA	714	32,518	(1,138)	32,095	31,469		626	**
COLORADO	4	2,098		2,103	2,058		45	**
CONNECTICUT	0	4,742		4,742	4,377	(365)	0	215
DELAWARE	139	962		1,101	931		170	50
GEORGIA	97	5,421		5,518	5,366		152	162
IDAHO	1	632	(15)	618	607	(11)	0	0
ILLINOIS	288	10,332		10,620	10,340	(126)	154	
IOWA	0	2,506	(259)	2,247	2,190	(57)	0	68
KANSAS	20	1,780		1,800	1,727		73	
LOUISIANA	(244)	3,413		3,169	3,804	188	(446)	
MARYLAND	53	4,642		4,695	4,437	(50)	208	50
MASSACHUSETTS	333	10,399	(182)	10,550	10,652	143	41	70
MICHIGAN	153	6,276	8	6,436	6,423		13	347
MISSISSIPPI	52	1,572		1,624	1,508		116	6
MISSOURI	110	3,205		3,315	3,273	8	50	0
NEW JERSEY	521	9,581	(242)	9,860	9,138		722	
NEW MEXICO	124	1,435	30	1,589	1,463	(9)	117	**
NEW YORK	153	24,688		24,841	23,453	(1,219)	169	**
OKLAHOMA	0	2,070	(11)	2,059	2,059		0	0
PENNSYLVANIA	213	9,803	63	10,079	9,681	(50)	348	51
RHODE ISLAND	52	1,187		1,239	1,119	(13)	108	18
SOUTH CAROLINA	67	2,693	(24)	2,736	2,670	24	90	75
SOUTH DAKOTA	31	370	(2)	400	367		36	
TENNESSEE	69	2,910		2,979	2,952	(5)	22	75
UTAH	2	1,302	24	1,328	1,279	(20)	29	20
WEST VIRGINIA	113	1,532		1,644	1,611		33	
STATES WITH BIENNIAL BUDGETS								
ARKANSAS	0	1,671		1,671	1,671		0	
FLORIDA	180	7,581		7,761	7,725		36	103
HAWAII	137	1,890	5	2,032	1,692		339	
INDIANA	39	3,522	3	3,564	3,274	(189)	101	165
KENTUCKY	209	2,875	14	3,097	2,914	(18)	165	**
MAINE	10	1,118	32	1,160	1,045	(55)	60	25
MINNESOTA	370	5,412	28	5,810	5,167	(165)	478	**
MONTANA	16	346	(2)	360	391	41	10	
NEBRASKA	18	886		904	849		55	24
NEVADA	85	536	20	641	576	(38)	27	40
NEW HAMPSHIRE	32	538		570	513	(34)	23	27
NORTH CAROLINA	319	5,392		5,711	5,349		362	
NORTH DAKOTA	109	459		568	544		24	
OHIO	458	10,464	7	10,929	10,540	(163)	226	263
OREGON	132	1,837		1,969	1,745		224	
TEXAS	(241)	11,948	(2,790)	8,917	9,901		(984)	
VERMONT	8	482	2	493	420	(15)	58	8
VIRGINIA	360	4,677	70	5,107	4,656	(313)	138	10
WASHINGTON	102	4,949		5,052	4,878	(165)	9	0
WISCONSIN	237	5,017	105	5,358	5,070	(55)	233	0
WYOMING	106	335		441	395		46	117
TOTAL	5,726	226,876	(3,489)	229,113	221,736	(2,731)	4,652	1,989

** Budget Stabilization Fund is included with ending balance.

NOTES TO TABLE A-1
FISCAL 1987 STATE GENERAL FUND

*Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes that follow Appendix A-3. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

Louisiana: Rainy day fund is referred to as Deficit Elimination Fund.

Maryland: Rainy day fund does not reflect interest earnings of about $5 million per year.

Oregon: Except for the revenue figures provided, all fiscal year figures are estimates. Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium and 52 percent for the second year.

Texas: The ending balance figures show a deficit or negative balance for fiscal 1987 and 1988. The legislature authorized short-term cash management notes to ease cash flow until new authorized revenues are received.

Virginia: The budget shows appropriations for operating programs on an annual basis and those for capital outlays on a biennial basis. Expenditure figures for each year thus reflect appropriations for operating programs and anticipated expenditures for capital outlays.

Table A-2
FISCAL 1988 STATE GENERAL FUND
($ in Millions)
Estimated Figures

STATE	BEGINNING BALANCE	REVENUE	ADJUSTMENTS	RESOURCES	EXPENDITURES	TRANSFERS	ENDING BALANCE	BUDGET STAB. FUND
STATES WITH ANNUAL BUDGETS								
ALABAMA	70	2,849	(6)	2,913	2,765		149	
ALASKA	20	2,092	306	2,418	2,323		95	0
ARIZONA	56	2,523		2,579	2,545		34	
CALIFORNIA	626	33,678		34,304	33,342		962	**
COLORADO	45	2,174		2,219	2,094		126	**
CONNECTICUT	0	4,998		4,998	4,997	(1)	0	320
DELAWARE	170	998		1,168	1,035		133	53
GEORGIA	152	5,782	2	5,936	5,936		0	173
IDAHO	0	663		663	661		3	0
ILLINOIS	154	10,785		10,939	10,554	(185)	200	
IOWA	0	2,568	(209)	2,359	2,393	34	0	39
KANSAS	73	1,970		2,043	1,897		146	
LOUISIANA	(446)	3,523		3,077	3,864	6	(781)	30
MARYLAND	208	4,940		5,148	4,892	(5)	251	55
MASSACHUSETTS	41	11,159	16	11,216	11,614	441	43	74
MICHIGAN	13	6,530	27	6,569	6,559		10	374
MISSISSIPPI	116	1,616		1,732	1,621	(47)	64	20
MISSOURI	50	3,505		3,555	3,524	9	40	0
NEW JERSEY	722	10,227	137	11,086	10,275		811	
NEW MEXICO	117	1,528	19	1,664	1,557	4	111	**
NEW YORK	169	26,534	670	27,373	25,446	(1,742)	185	**
OKLAHOMA	0	2,353	(20)	2,333	2,234	(33)	66	33
PENNSYLVANIA	348	10,282	44	10,674	10,470	(45)	159	80
RHODE ISLAND	108	1,248		1,356	1,246	(18)	92	28
SOUTH CAROLINA	90	2,886	(25)	2,951	2,864	25	111	101
SOUTH DAKOTA	36	385		421	393		28	
TENNESSEE	22	3,134		3,156	3,080	(26)	50	75
UTAH	29	1,364		1,393	1,380		13	20
WEST VIRGINIA	33	1,464	35	1,532	1,509	(6)	17	
STATES WITH BIENNIAL BUDGETS								
ARKANSAS	0	1,779		1,779	1,779		0	
FLORIDA	36	8,645		8,682	8,629	(36)	16	135
HAWAII	339	1,935	9	2,283	1,969		315	
INDIANA	101	3,964		4,065	3,603	(308)	154	213
KENTUCKY	165	3,023	37	3,226	3,218		8	**
MAINE	60	1,152		1,212	1,159	(17)	37	25
MINNESOTA	478	5,795	26	6,299	5,500	(245)	553	**
MONTANA	10	373		383	372		11	
NEBRASKA	55	951		1,006	927		79	26
NEVADA	27	583	4	614	585		28	40
NEW HAMPSHIRE	23	566		589	566	(3)	20	28
NORTH CAROLINA	362	5,835		6,197	5,978		219	
NORTH DAKOTA	24	482		506	515		(9)	
OHIO	226	10,663		10,889	10,737	(22)	130	285
OREGON	224	1,706		1,930	1,792		137	
TEXAS	(984)	12,387	(2,932)	8,471	9,290		(819)	
VERMONT	58	485	2	545	478	(18)	49	10
VIRGINIA	138	4,946	75	5,159	4,969		191	0
WASHINGTON	9	5,021		5,030	5,048		(18)	0
WISCONSIN	233	5,222		5,455	5,308		147	0
WYOMING	46	316		362	426	72	8	40
TOTAL	4,652	239,587	(1,783)	242,457	235,918	(2,166)	4,374	2,277

** Budget Stabilization Fund is included with ending balance.

NOTES TO TABLE A-2
FISCAL 1988 STATE GENERAL FUND

*Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes that follow Appendix A-3. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

Louisiana: Rainy day fund is referred to as Deficit Elimination Fund.

Maryland: Rainy day fund does not reflect interest earnings of about $5 million per year.

North Dakota: The ending balances show a deficit because it is the first year of a biennial budget that has to balance only at the end of the biennium. The state has authority to borrow $40 million from special funds for cash flow financing.

Oklahoma: For revenues, funds are to be recertified and new estimates will also be made in February 1988, which subsequently will affect the ending balance for fiscal 1988. The new estimates will also affect the fiscal 1989 beginning balance, revenues, and expenditures.

Oregon: Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium and 52 percent for the second year. Also note that because of the estimating technique used for expenditures, fiscal year comparisons may be misleading.

Texas: The ending balance figures show a deficit or negative balance for fiscal 1987 and 1988. The legislature authorized short-term cash management notes to ease cash flow until new authorized revenues are received.

Virginia: The budget shows appropriations for operating programs on an annual basis and those for capital outlays on a biennial basis. Expenditure figures for each year thus reflect appropriations for operating programs and anticipated expenditures for capital outlays.

Table A-3
FISCAL 1989 STATE GENERAL FUND
($ in Millions)
Proposed Figures

STATE	BEGINNING BALANCE	REVENUE	ADJUSTMENTS	RESOURCES	EXPENDITURES	TRANSFERS	ENDING BALANCE	BUDGET STAB. FUND
STATES WITH ANNUAL BUDGETS								
ALABAMA	148	2,918	(6)	3,060	3,060		0	
ALASKA	95	1,983	296	2,374	2,296		78	0
ARIZONA	34	2,819		2,853	2,814		40	
CALIFORNIA	962	36,249		37,211	36,101		1,110	**
COLORADO	126	2,244		2,370	2,217	(45)	107	**
CONNECTICUT	0	5,581		5,581	5,581		0	247
DELAWARE	133	1,021	(32)	1,123	1,035		88	55
GEORGIA	0	6,254		6,254	6,254		0	187
IDAHO	3	666	35	703	703		0	0
ILLINOIS	200	11,143		11,343	10,896	(247)	200	
IOWA	0	2,730	(192)	2,538	2,590	53	0	1
KANSAS	146	2,019	(28)	2,137	1,991		146	
LOUISIANA	(781)	3,375		2,594	3,375	50	(731)	20
MARYLAND	251	5,215		5,466	5,449	(5)	12	60
MASSACHUSETTS	43	12,006	404	12,453	12,581	171	43	78
MICHIGAN	10	6,651		6,661	6,628		33	374
MISSISSIPPI	64	1,687	58	1,809	1,821	15	4	20
MISSOURI	40	3,753		3,793	3,763	10	40	2
NEW JERSEY	811	10,948	286	12,045	11,472	(342)	231	342
NEW MEXICO	111	1,543	53	1,706	1,559		147	**
NEW YORK	185	28,394		28,579	26,999	(1,379)	201	**
OKLAHOMA	66	2,419		2,485	2,364		121	33
PENNSYLVANIA	159	10,752	(8)	10,903	10,900		3	109
RHODE ISLAND	92	1,314		1,406	1,367	(19)	20	39
SOUTH CAROLINA	111	3,067	(7)	3,171	3,059	7	119	108
SOUTH DAKOTA	28	387		415	411		5	
TENNESSEE	50	3,299	70	3,419	3,336	(83)	0	100
UTAH	13	1,406		1,419	1,439	20	0	0
WEST VIRGINIA	17	1,464		1,481	1,451	(31)	0	
STATES WITH BIENNIAL BUDGETS								
ARKANSAS	0	1,843		1,843	1,843		0	
FLORIDA	16	9,219		9,236	9,192		43	142
HAWAII	315	2,030	9	2,354	2,142		212	
INDIANA	154	4,183		4,338	3,891	(330)	117	224
KENTUCKY	0	3,278	23	3,301	3,286		15	**
MAINE	37	1,241		1,278	1,236	(31)	11	25
MINNESOTA	553	5,619	27	6,199	5,676	(176)	347	**
MONTANA	11	383		394	387		7	
NEBRASKA	79	970	1	1,050	965		85	28
NEVADA	28	617	4	649	624		24	40
NEW HAMPSHIRE	20	565		586	583	1	2	28
NORTH CAROLINA	220	6,186		6,406	6,135		271	
NORTH DAKOTA	(9)	570		561	544		17	
OHIO	130	10,968		11,098	11,020		78	285
OREGON	137	1,949		2,087	1,942		145	
TEXAS	(819)	13,570	(3,048)	9,703	9,506		197	
VERMONT	49	522	2	572	520	(11)	41	10
VIRGINIA	191	5,301	56	5,548	5,548		0	0
WASHINGTON	(18)	5,236		5,218	5,190		28	0
WISCONSIN	147	5,673		5,820	5,761		59	0
WYOMING	8	313	28	349	370	23	2	19
TOTAL	4,366	253,543	(1,969)	255,942	249,873	(2,349)	3,718	2,576

** Budget Stabilization Fund is included with ending balance.

NOTES TO TABLE A-3
FISCAL 1989 STATE GENERAL FUND

*Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes that follow Appendix A-3. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

Louisiana: Rainy day fund is referred to as Deficit Elimination Fund.

Maryland: Rainy day fund does not reflect interest earnings of about $5 million per year.

Oklahoma: For revenues, funds are to be recertified and new estimates will also be made in February 1988, which subsequently will affect the ending balance for fiscal 1988. The new estimates will also affect the fiscal 1989 beginning balance, revenues, and expenditures.

Oregon: Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium and 52 percent for the second year. Also note that because of the estimating technique used for expenditures, fiscal year comparisons may be misleading.

Virginia: The budget shows appropriations for operating programs on an annual basis and those for capital outlays on a biennial basis. Thus, expenditure figures for each year reflect appropriations for operating programs and anticipated expenditures for capital outlays. For Virginia's rainy day fund, the balance shows 0, but receipts from the newly enacted lottery will go into this reserve. However, no revenue estimate is currently available. During the first year of the biennium (fiscal 1989), the nominal expenditure growth rate is 11.7 percent, but in the second year (fiscal 1990), the rate is only 3.4 percent and does not include the second year employee compensation package. Also, of the $109 million in capital expenditures budgeted for the biennium, $82.7 million is budgeted in fiscal 1989.

Wyoming: Fiscal 1989 general fund figures represent roughly one-half the biennial budget.

NOTES TO APPENDIX TABLES A-1, A-2, AND A-3

Explanation of Transfers

Florida: In fiscal 1988, transfers shown are between the general revenue fund and the working capital fund. It does not account entirely for the change in the working capital fund balance due to the resources deposited and expenditures made directly from this fund.

Idaho: In fiscal 1987, the transfer represents a delayed final fiscal 1986 payment to public schools.

Illinois: Transfers-out are the statutory percentages of income and sales tax receipts made to other funds and general obligation debt service. Transfers-in include percentage of lottery sales and other reimbursements. The figure shown on the charts is a net figure.

Indiana: For the three fiscal years, all transfers are to the property tax relief fund. Fiscal 1988 also includes a transfer of $38.1 million to the rainy day fund.

Iowa: In all three fiscal years, transfers are between the rainy day fund and the general fund.

Kentucky: In fiscal 1987, there was an increase in the continuing appropriations reserve, as well as a transfer of $20.8 million to the rainy day fund.

Louisiana: In fiscal 1987, transfers are from nineteen funds into the general fund. In fiscal 1988, transfers are from several funds into the general fund. In fiscal 1989, transfers are appropriations from the general fund to the deficit elimination fund.

Maine: Figures shown include increases in operating working capital, a restored contingent account, a transfer to the rainy day fund, and an increase in the tax reserve fund.

Maryland: Monies for each fiscal year were transferred into the rainy day fund.

Massachusetts: For fiscal 1987, transfers are from consolidated transfer receipts ($16.1 million), net fund transfers ($18.8 million), to trans-muni assessments ($4.1 million), transfer to cover over funds ($281 million), and other ($40 million). For fiscal 1988 and 1989, the transfers are only from consolidated transfer receipts ($55.3 million and $22.8 million, respectively) and net fund transfers ($72.5 million and $39.9 million, respectively).

Mississippi: For fiscal 1988, $31.5 million was transferred to the general fund reserve, $0.8 million was transferred to the municipal revolving fund, and $14.8 million was transferred to the stabilization fund. For fiscal 1989, there is a $15 million estimate in reversions to the general fund.

Montana: For fiscal 1987, there was an education trust transfer of $35 million and a residual equity transfer of $6.6 million.

New Hampshire: In fiscal 1987, transfers reflect $26.9 million to the revenue stabilization fund and $7 million to the capital fund. In fiscal 1988, $1.4 million was transferred to the revenue

stabilization fund and $7 million to the capital fund. In fiscal 1989, an estimated $1.2 million is to be transferred to the capital fund.

New Jersey: In fiscal 1989, transfers represent the proposed establishment of a rainy day fund.

New Mexico: For transfers in fiscal 1987, $13 million is attributed to the unappropriated surplus; $2.1 million to school support reserve act, and $6 million net to the general fund. In fiscal 1988, $3.8 million is transferred to the general fund from an unappropriated surplus.

New York: The amounts shown are the net of transfers into the general fund. Transfers into the general fund are $161 million, $156 million, and $29 million in fiscal 1987, 1988, and 1989, respectively. Fiscal 1988 also includes a $670 million transfer to the infrastructure trust fund.

Ohio: For fiscal 1987, $55 million was transferred for capital appropriations through June 30, 1988, and a $108 million reserve for the budget stabilization fund.

Oklahoma: In fiscal 1988, there was a transfer to the constitutional reserve fund.

Pennsylvania: In fiscal 1987 and fiscal 1988, $25 million was transferred to the rainy day fund. Also in fiscal 1987, $25 million was transferred to the sunny day fund. In fiscal 1988, $20 million was transferred to this fund. From the surplus in the state workman's insurance fund in fiscal 1989, $25 million will be transferred into both the sunny day and rainy day funds.

Rhode Island: In fiscal 1987, transfers reflect $3.1 million to the general fund and the following transfers from the general fund: $8.4 million to the reserve fund, $4.2 million to asset protection, and $3.2 million for tort claims. In fiscal 1988, transfers from the general fund include $10 million to the reserve fund, $5 million to asset protection and $2.8 million for tort claims. In fiscal 1989, transfers from the general fund include $10.9 million to the reserve fund, and $8.2 million in asset protection.

South Carolina: A general fund reserve is required to maintain 4 percent of the latest completed year general fund revenue in its balance. (Payback methods after reserve has been utilized to prevent year-end deficit may result in the reserve being at less than 4 percent at certain times as in fiscal 1987.)

Tennessee: These figures include net transfers to the capital projects fund, highway fund, debt service fund, and the rainy day reserve in the general fund.

Utah: In fiscal 1989, $20 million is projected to be transferred from budget stabilization fund to fund one-time capital acquisitions.

Vermont: In fiscal 1987, transfers to the general fund include $10.5 million from the special revenue fund. Transfers from the general fund include $14.6 million to the special revenue fund, $8.2 million to the budget stabilization fund and $2.5 million in other transfers. In fiscal 1988, $8.4 million was transferred from the special revenue fund to the general fund while $23.3 million was transferred from the general fund to the special revenue fund, $1.6 million to the budget stabilization fund, and $1.6 million for other transfers. In fiscal 1989, $3.3 million came from the

special revenue fund to the general fund. The following was transferred from the general fund: $12.3 million to the special revenue fund, $0.6 million to the budget stabilization fund, and $1.5 million in other transfers.

Virginia: In fiscal 1987, the amount shown is the fund balance reserved for loan and working capital advances and for operating expense and capital outlay reappropriated items.

Washington: In fiscal 1987, the uncommitted general fund state ending balance was transferred to a revenue accrual account at the end of the biennium (used to fund pensions).

Wyoming: In fiscal 1988, there was a transfer to the general fund from the budget reserve account.

NOTES TO APPENDIX TABLES A-1, A-2, AND A-3

Explanation of General Fund Budget Adjustments

Alabama: Funds were taken out of the special educational trust fund up-front to pay for trade school and junior college authority bonds and the administrative cost of the revenue department.

Alaska: Fiscal 1987 transfers of $432 million from the budget reserve fund to the general fund; repeals of unneeded capital appropriations; legal settlements; fund transfers to provide additional resources; and operating reversions for fiscal 1987 all total $771.2. Fiscal 1988 adjustments include capital project reversions; transfer of loan fund surpluses to the general fund; Dinkum Sands; and other items. Fiscal 1989 adjustments include the railbelt energy fund balance to be transferred to the general fund; the transfer of loan fund surpluses to the general fund; and other items.

California: These monies reflect a rebate to the taxpayers in fiscal 1987 for overcollection of tax revenues pursuant to Article XIIIB of the California Constitution.

Delaware: In fiscal 1989, there is expected to be a revenue reduction to the transportation fund of $34.3 million and a revenue increase to the hospital board and treatment of $2.6 million.

Hawaii: These monies reflect the prior year's appropriation reversions for all three years.

Idaho: In fiscal 1987, there was a transfer to the permanent building fund. In fiscal 1989, the Governor is proposing to repeal the investment tax credit, resulting in a gain of $15 million; to repeal the sales tax trade-in exemption -- $11.5 million; to apply the sales tax to automobile and miscellaneous repairs -- $15.2 million; and miscellaneous -- $3 million.

Indiana: In fiscal 1987, adjustments resulting from auditors adjustments, accounting errors, and post audits.

Iowa: In fiscal 1987, adjustments include tax refunds of $271.2 million and accrued revenue of $11.9 million. In fiscal 1988, adjustments include tax refunds of $220.1 million and accrued revenue of $16.3 million. In fiscal 1989, adjustments include tax refunds of $219 million and accrued revenue of $26.7 million.

Kansas: Adjustments include monies from proposed tax reform ($21 million from the individual income tax, $7 million from the sales tax) for fiscal 1989.

Kentucky: Adjustments reflect non-revenue receipt transfers from other funds to the General Fund for all three years.

Maine: In fiscal 1987, adjustments reflect reversions from the prior year.

Massachusetts: For all three fiscal years, monies include reversions and balances from continuing accounts, as well as a revenue enforcement initiative in fiscal 1989 of $264 million.

Michigan: In fiscal 1987, adjustments reflect a reserve increase while in fiscal 1988 they reflect a state building authority bonding payback.

Mississippi: For fiscal 1989, the total adjustments proposed includes $18.9 million from the acceleration of premium tax collections; $27 million from changes in 1985 bond refunding program; $3.1 million from decreased diversions; and $8.7 million from transfers of cash balances from miscellaneous special funds.

Montana: For fiscal 1987, there is a $2 million prior year adjustment.

Nebraska: In fiscal 1989, $1.4 million is a transfer from the cash fund to the general fund.

Nevada: For all three fiscal years, the adjustments represent reversions.

New Jersey: Adjustments represent prior year and current year appropriation reversions and direct charges and credits to fund balance. Fiscal 1987 includes a transfer to a reserve fund balance of $285.9 million that represents funds collected from the gross income tax which were considered to be in excess of those normally received. In accordance with the fiscal 1988 appropriations act, these funds would not be made available as resources in fiscal 1988 until the determination of collections in fiscal 1988 was made. Funds are proposed to be unreserved and available as resources in fiscal 1989 based on the current favorable revenue collection pattern.

New Mexico: For the three fiscal years, adjustments include various non-recurring revenues.

New York: In fiscal 1988, the state received a surge in personal income tax collections in the 1986 calendar year, which was unbudgeted in fiscal 1988. Amounts received are required to be transferred to an infrastructure trust fund.

Ohio: In fiscal 1987, adjustments reflect $7 million in excess lottery transfers, which was reserved in fiscal 1986 and also is included as net revenue.

Oklahoma: For fiscal 1987 and 1988, there was an increase in cash-flow funds of $11 million (1987 to 1988) and $20 million (1988 to 1989), respectively.

Pennsylvania: In fiscal 1987, adjustments include: $4 million lost to jobs creation tax credits; $60 million gained from prior year reversions; and $7 million lost due to an increase in disaster assistance. In fiscal 1988, adjustments include: $6 million lost to jobs creation tax credits and $50 million gained from prior year reversions. In fiscal 1989, adjustments reflect $8 million lost to jobs creation tax credits.

South Carolina: For all three fiscal years, available resources are reduced by restrictions on general fund revenue for required payment into the general fund reserve.

South Dakota: In fiscal 1987, the amount reducing resources is a net adjustment for accruals. South Dakota switched from a cash basis accounting system to an accrual basis accounting system in fiscal 1987. This reconciles accounts receivable and accounts payable to a cash basis.

Tennessee: In fiscal 1989, resources increased due to the net effect of accruing sales tax revenues.

Texas: For each fiscal year shown, resources are reduced as a result of allocations to other funds.

Vermont: In fiscal 1987, 1988, and 1989, adjustments reflect reversions in the amount of $2.4 million, $2 million, and $2 million, respectively.

Virginia: Total resources increased due to transfers from the alcoholic beverage control (enterprise) fund and other non-general funds as required by law.

Table A-4
ENDING BALANCES AS A PERCENT OF EXPENDITURES, FISCAL 1987 TO 1989

STATE	GENERAL FUND ENDING BALANCES			AS A PERCENT OF EXPENDITURES		
	FISCAL 1987	FISCAL 1988	FISCAL 1989	FISCAL 1987	FISCAL 1988	FISCAL 1989
STATES WITH ANNUAL BUDGETS						
ALABAMA	70	149	0	2.7	5.4	0.0
ALASKA	20	95	78	0.8	4.1	3.4
ARIZONA	56	34	40	2.3	1.3	1.4
CALIFORNIA	626	962	1,110	2.0	2.9	3.1
COLORADO	45	126	107	2.2	6.0	4.8
CONNECTICUT	0	0	0	0.0	0.0	0.0
DELAWARE	170	133	88	18.3	12.9	8.5
GEORGIA	152	0	0	2.8	0.0	0.0
IDAHO	0	3	0	0.0	0.5	0.0
ILLINOIS	154	200	200	1.5	1.9	1.8
IOWA	0	0	0	0.0	0.0	0.0
KANSAS	73	146	146	4.2	7.7	7.3
LOUISIANA	(446)	(781)	(731)	-11.7	-20.2	-21.7
MARYLAND	208	251	12	4.7	5.1	0.2
MASSACHUSETTS	41	43	43	0.4	0.4	0.3
MICHIGAN	13	10	33	0.2	0.2	0.5
MISSISSIPPI	116	64	4	7.7	3.9	0.2
MISSOURI	50	40	40	1.5	1.1	1.1
NEW JERSEY	722	811	231	7.9	7.9	2.0
NEW MEXICO	117	111	147	8.0	7.1	9.4
NEW YORK	169	185	201	0.7	0.7	0.7
OKLAHOMA	0	66	121	0.0	3.0	5.1
PENNSYLVANIA	348	159	3	3.6	1.5	0.0
RHODE ISLAND	108	92	20	9.7	7.4	1.5
SOUTH CAROLINA	90	111	119	3.4	3.9	3.9
SOUTH DAKOTA	36	28	5	9.8	7.1	1.2
TENNESSEE	22	50	0	0.7	1.6	0.0
UTAH	29	13	0	2.3	0.9	0.0
WEST VIRGINIA	33	17	0	2.0	1.1	0.0
STATES WITH BIENNIAL BUDGETS						
ARKANSAS	0	0	0	0.0	0.0	0.0
FLORIDA	36	16	43	0.5	0.2	0.5
HAWAII	339	315	212	20.0	16.0	9.9
INDIANA	101	154	117	3.1	4.3	3.0
KENTUCKY	165	8	15	5.7	0.2	0.5
MAINE	60	37	11	5.7	3.2	0.9
MINNESOTA	478	553	347	9.3	10.1	6.1
MONTANA	10	11	7	2.6	3.0	1.8
NEBRASKA	55	79	85	6.5	8.5	8.8
NEVADA	27	28	24	4.7	4.8	3.8
NEW HAMPSHIRE	23	20	2	4.5	3.5	0.3
NORTH CAROLINA	362	219	271	6.8	3.7	4.4
NORTH DAKOTA	24	(9)	17	4.4	-1.7	3.1
OHIO	226	130	78	2.1	1.2	0.7
OREGON	224	137	145	12.8	7.6	7.5
TEXAS	(984)	(819)	197	-9.9	-8.8	2.1
VERMONT	58	49	41	13.8	10.3	7.9
VIRGINIA	138	191	0	3.0	3.8	0.0
WASHINGTON	9	(18)	28	0.2	-0.4	0.5
WISCONSIN	233	147	59	4.6	2.8	1.0
WYOMING	46	8	2	11.6	1.9	0.5
TOTAL	4,652	4,374	3,718	2.1	1.9	1.5

Table A-5
BUDGET STABILIZATION FUNDS, FISCAL 1987 TO 1989

STATE	STABILIZATION FUND BALANCES			AS A PERCENT OF EXPENDITURES		
	FISCAL 1987	FISCAL 1988	FISCAL 1989	FISCAL 1987	FISCAL 1988	FISCAL 1989
STATES WITH ANNUAL BUDGETS						
ALABAMA						
ALASKA	0	0	0	0.0	0.0	0.0
ARIZONA						
CALIFORNIA	**	**	**			
COLORADO	**	**	**			
CONNECTICUT	215	320	247	4.9	6.4	4.4
DELAWARE	50	53	55	5.4	5.1	5.3
GEORGIA	162	173	187	3.0	2.9	3.0
IDAHO	0	0	0	0.0	0.0	0.0
ILLINOIS						
IOWA	68	39	1	3.1	1.6	0.0
KANSAS						
LOUISIANA		30	20		0.8	0.6
MARYLAND	50	55	60	1.1	1.1	1.1
MASSACHUSETTS	70	74	78	0.7	0.6	0.6
MICHIGAN	347	374	374	5.4	5.7	5.6
MISSISSIPPI	6	20	20	0.4	1.2	1.1
MISSOURI	0	0	2	0.0	0.0	0.1
NEW JERSEY			342			3.0
NEW MEXICO	**	**	**			
NEW YORK	**	**	**			
OKLAHOMA	0	33	33	0.0	1.5	1.4
PENNSYLVANIA	51	80	109	0.5	0.8	1.0
RHODE ISLAND	18	28	39	1.6	2.2	2.9
SOUTH CAROLINA	75	101	108	2.8	3.5	3.5
SOUTH DAKOTA				0.0	0.0	0.0
TENNESSEE	75	75	100	2.5	2.4	3.0
UTAH	20	20	0	1.6	1.4	0.0
WEST VIRGINIA						
STATES WITH BIENNIAL BUDGETS						
ARKANSAS						
FLORIDA	103	135	142	1.3	1.6	1.5
HAWAII						
INDIANA	165	213	224	5.0	5.9	5.8
KENTUCKY	**	**	**			
MAINE	25	25	25	2.4	2.2	2.0
MINNESOTA	**	**	**			
MONTANA						
NEBRASKA	24	26	28	2.8	2.8	2.9
NEVADA	40	40	40	6.9	6.8	6.4
NEW HAMPSHIRE	27	28	28	5.3	4.9	4.8
NORTH CAROLINA						
NORTH DAKOTA						
OHIO	263	285	285	2.5	2.7	2.6
OREGON						
TEXAS						
VERMONT	8	10	10	1.9	2.1	1.9
VIRGINIA	10	0	0	0.2	0.0	0.0
WASHINGTON	0	0	0	0.0	0.0	0.0
WISCONSIN	0	0	0	0.0	0.0	0.0
WYOMING	117	40	19	29.6	9.4	5.1
TOTAL	1,989	2,277	2,576	0.9	1.0	1.0

Table A-6
NOMINAL AND REAL ANNUAL CHANGES IN EXPENDITURES, FISCAL 1987 TO 1989

STATE	NOMINAL PERCENTAGE CHANGE			REAL PERCENTAGE CHANGE		
	FISCAL 1987	FISCAL 1988	FISCAL 1989	FISCAL 1987	FISCAL 1988	FISCAL 1989
STATES WITH ANNUAL BUDGETS						
ALABAMA	-5.1	5.1	10.7	-8.3	1.1	5.9
ALASKA	-12.8	-4.4	-1.2	-15.8	-8.1	-5.4
ARIZONA	3.3	5.8	10.6	-0.3	1.7	5.8
CALIFORNIA	9.1	6.0	8.3	5.3	1.9	3.6
COLORADO	3.2	1.7	5.9	-0.4	-2.2	1.3
CONNECTICUT	9.1	14.2	11.7	5.3	9.7	6.9
DELAWARE	0.2	11.2	0.0	-3.2	6.9	-4.3
GEORGIA	6.7	10.6	5.4	3.0	6.3	0.8
IDAHO	4.5	8.9	6.4	0.9	4.7	1.8
ILLINOIS	3.3	2.1	3.2	-0.3	-1.9	-1.2
IOWA	2.1	9.3	8.2	-1.4	5.0	3.6
KANSAS	-0.9	9.8	5.0	-4.3	5.6	0.4
LOUISIANA	-11.8	1.6	-12.7	-14.8	-2.4	-16.4
MARYLAND	6.7	10.3	11.4	3.0	6.0	6.6
MASSACHUSETTS	9.1	9.0	8.3	5.4	4.8	3.7
MICHIGAN	7.6	2.1	1.1	3.9	-1.8	-3.3
MISSISSIPPI	-0.6	7.5	12.3	-4.0	3.3	7.5
MISSOURI	7.1	7.7	6.8	3.4	3.5	2.2
NEW JERSEY	4.7	12.4	11.6	1.1	8.1	6.8
NEW MEXICO	3.5	6.4	0.1	-0.1	2.3	-4.2
NEW YORK	7.8	8.5	6.1	4.1	4.3	1.5
OKLAHOMA	0.9	8.5	5.8	-2.6	4.3	1.3
PENNSYLVANIA	4.2	8.1	4.1	0.6	4.0	-0.4
RHODE ISLAND	6.8	11.3	9.7	3.1	7.0	5.0
SOUTH CAROLINA	3.0	7.3	6.8	-0.5	3.1	2.2
SOUTH DAKOTA	6.1	7.1	4.6	2.4	2.9	0.1
TENNESSEE	13.6	4.3	8.3	9.7	0.3	3.6
UTAH	0.2	7.9	4.3	-3.3	3.7	-0.2
WEST VIRGINIA	0.9	-6.3	-8.8	-2.6	-10.0	-8.0
STATES WITH BIENNIAL BUDGETS						
ARKANSAS	5.3	6.5	3.6	1.7	2.3	-0.9
FLORIDA	12.9	11.7	6.5	9.0	7.4	1.9
HAWAII	5.6	16.4	8.8	2.0	11.9	4.1
INDIANA	4.8	10.0	8.0	1.2	5.8	3.3
KENTUCKY	9.8	10.4	2.1	6.0	6.2	-2.3
MAINE	9.9	10.9	6.6	6.1	6.6	2.0
MINNESOTA	6.4	6.4	3.2	2.8	2.3	-1.2
MONTANA	6.5	-4.9	4.0	2.9	-8.5	-0.4
NEBRASKA	2.3	9.2	4.1	-1.2	5.0	-0.4
NEVADA	21.5	1.6	6.7	17.3	-2.4	2.1
NEW HAMPSHIRE	9.4	10.3	3.0	5.6	6.1	-1.4
NORTH CAROLINA	7.6	11.8	2.6	3.9	7.4	-1.8
NORTH DAKOTA	3.6	-5.3	5.6	0.0	-9.0	1.1
OHIO	10.2	1.9	2.6	6.4	-2.1	-1.8
OREGON	8.8	2.7	8.4	5.0	-1.3	3.7
TEXAS	6.3	-6.2	2.3	2.6	-9.8	-2.1
VERMONT	8.0	13.8	8.8	4.2	9.4	4.1
VIRGINIA	11.8	6.7	11.7	8.0	2.6	6.8
WASHINGTON	7.9	3.5	2.8	4.2	-0.5	-1.6
WISCONSIN	4.1	4.7	8.5	0.5	0.6	3.9
WYOMING	-6.8	7.8	-13.1	-10.1	3.7	-16.9
TOTAL	6.2	6.4	5.9	2.6	2.3	1.4

Table A-7
PROPOSED STATE EMPLOYMENT COMPENSATION PACKAGE
FISCAL 1989

State and Region	*Across the Board (ATB)*	*Merit*	*Other*	*Notes*
New England				
Connecticut	4.0%		2.5%	"Other" are step rate increases annualized.
Maine	3.0			
Massachusetts	5.0		1.0	"Other" are step increases to those who are eligible.
New Hampshire	6.0			3% on 7/88 and 3% on 1/89
Rhode Island	5.5			Classification study underway.
Vermont	4.5		1.1	
Mideast				
Delaware	3.0		3.0	"Other" used to move some employees to mid point of scale.
Maryland	4.0		.9	"Other" for grade restructuring.
New Jersey	5.0	2.5		Merit increase is 5%, but averages to 2.5%. ATB increase effective 10/88.
New York	N/A			Currently negotiating new contracts for 4/88.
Pennsylvania	4.0			Estimate subject to collective bargaining.
Great Lakes				
Illinois	5.0	6.5	2.0	Step and merit increase to those employees that are eligible.
Indiana	2.0	2.0		Varied merit program was used for 5,800 employees; ranges were 0-8%.
Michigan	3.1-4.1			Range from 10 bargaining and non-represented groups.
Ohio	4.5			Various packages have been negotiated with two main packages of 4% and 5%.
Wisconsin	2.1			
Plains				
Iowa	2.0	1.5		
Kansas	4.0	1.7		
Minnesota	3.03	0.38		
Missouri	0.0	0.5	1.39	"Other" for grade advancements for eligible employees.
Nebraska	4.0		4.0	"Other" for salary adjustment and merit.
North Dakota	2.0		$50	ATB effective 1/89; however, if general fund revenues come in stronger, increase would be retroactive to 7/88.
South Dakota	3.0			
Southeast				
Alabama	Pending	2.5-5.0		"Other" will include longevity pay beginning in 12/87, ranging from $300-$600 per employee.
Arkansas	0.0	2.5		
Florida	3.0	1.5		Senior management and select exempt service would receive 4.5%; however, it is discretionary.
Georgia	2.5	4.2		
Kentucky	2.0			
Louisiana	0.0	1.2		

Table A-7
PROPOSED STATE EMPLOYMENT COMPENSATION PACKAGE
FISCAL 1989 (continued)

State and Region	*Across the Board (ATB)*	*Merit*	*Other*	*Notes*
Southeast (continued)				
Mississippi	0.0		3.29	"Other" represents state employees early retirement plan.
North Carolina	5.0			
South Carolina	2.5	2.5		Proposal for merit pay effective 7/88.
Tennessee	Varies to 6.0			Lower paid employees will receive the highest increase.
Virginia	2.5	2.46		Merit equals 4.56% on proficiency review date covering 60% of workforce.
West Virginia	0.0			Merit step increases given on a case-by-case basis.
Southwest				
Arizona	0.0	1.5	2.5	"Other" is for salary adjustments.
New Mexico	3.0	2.0		ATB to be achieved with vacancy savings.
Oklahoma	2.5	0-5		2.5% performance pay for half of employees and 2.5% exceptional performance pay for up to 10% of employees.
Texas	2.0			Effective 9/88.
Rocky Mountain				
Colorado	0.81	5.0		Merit/anniversary increase provided to eligible employees.
Idaho	4.0			Public school teachers will receive 4% and college faculty 2% for salary equity.
Montana	0.0			Only longevity increases are allowed.
Utah	0.0	2.0		
Wyoming	4.0			
Far West				
California	4.0		1.0	Merit to be absorbed by departments. ATB eff. 1/89. "Other" effective 1/89 except for increased costs of health, dental, and vision, which are effective 7/88.
Nevada	0.0-3.0			Increase dependent on size of General Fund ending balance.
Oregon	3.0	5.0		Approximately half of work force qualifies for merit.
Washington	3.0	2.5		Half of classified employees are eligible for 5% merit.
Alaska	N/A			
Hawaii	6.0			Effective 10/88

Table A-8
FISCAL 1988 TAX COLLECTIONS COMPARED TO INITIAL PROJECTIONS USED IN FORMULATING BUDGET
($ in millions)

State and Region	Personal Income Tax		Sales Tax		Total Revenue Collections
	Original Estimate	Current Estimate	Original Estimate	Current Estimate	
New England					
Connecticut	$ 358	$ 358	$ 2,075	$ 2,050	T
Maine	416	416	448	448	A
Massachusetts	4,145	4,200	2,042	2,030	T
New Hampshire	N/A	N/A	N/A	N/A	A
Rhode Island	339	362	366	380	A
Vermont	177	181	117	117	A
Mideast					
Delaware	447	432	N/A	N/A	T
Dist. of Col.					
Maryland	2,304	2,348	1,373	1,409	T
New Jersey	2,580	2,610	3,080	3,045	A
New York	13,301	14,216	5,255	5,330	A
Pennsylvania	2,878	2,919	3,837	3,832	A
Great Lakes					
Illinois	3,379	3,478	3,401	3,401	T
Indiana	1,724	1,745	1,889	1,907	B
Michigan	3,093	3,080	2,542	2,431	T
Ohio	3,205	3,205	3,145	3,145	T
Wisconsin	2,309	2,325	1,735	1,715	T
Plains					
Iowa	1,174	1,195	637	645	A
Kansas	773	780	655	667	T
Minnesota	2,190	2,443	1,469	1,639	A
Missouri	1,662	1,625	1,129	1,119	B
Nebraska	340	385	370	380	A
North Dakota	109	109	238	238	T
South Dakota	N/A	N/A	196	201	A
Southeast					
Alabama	960 *	1,029 *	730	745	A
Arkansas	683	721 *	736	771 *	A
Florida	N/A	N/A	5,971	5,889	T
Georgia	2,343	2,343	1,926	1,926	A
Kentucky	1,009	962	1,010	953	B
Louisiana	531	522	1,090	1,115	B
Mississippi	310	330	687	705	A
North Carolina	2,594	2,754	1,531	1,553	A
South Carolina	1,066	1,064	1,003	1,002	T
Tennessee	63	72	2,105	2,109	T
Virginia	2,608	2,685	1,207	1,201	A
West Virginia	421	421	315	315	B
Southwest					
Arizona	902	858	1,296	1,256	B
New Mexico	266	280	557	548	T
Oklahoma	770	778	685	716	T
Texas	N/A	N/A	3,712	5,848 *	A
Rocky Mountain					
Colorado	1,172	1,150	675	659	T
Idaho	343	347	260	253	A
Montana	226	226	N/A	N/A	T
Utah	533	527	618	587	B
Wyoming	N/A	N/A	111	88	T
Far West					
California	13,710	14,100	11,546	11,500	A
Nevada	N/A	N/A	206	213	A
Oregon	1,267	1,333	N/A	N/A	A
Washington	N/A	N/A	2,324	2,352	A
Alaska	N/A	N/A	N/A	N/A	T
Hawaii	525	527	830	910	A

Key: T = Revenue collections on target
A = Revenue collections above original projections
B = Revenue collections below original projections

NOTES TO TABLE A-8

Alabama: Corporate income taxes included.

Arkansas: Increases attributed to income and sales tax changes adopted last year.

Texas: Tax increase included.

Table A-9
PROPOSED FISCAL 1989 TAX CHANGES BY TYPE OF TAX

State	Tax Change Description	Eff. Date	FY 89 Revenue Change ($ in millions)
PERSONAL INCOME TAX			
Arizona	Eliminate renters credit.	1/88	$ 20.0
Kansas	Reform personal income tax by reducing 8 brackets to 2 of 4.15% and 5.4%; increase personal exemption and standard deduction; eliminate federal tax deduction.	1/88	(21.3)
Maine	Reform personal income tax by reducing number of brackets, reducing the top marginal tax rate, and changing personal exemption and standard deduction.		
Massachusetts	Update to federal Internal Revenue Code.		67.0
Michigan	Broaden tax base to include lottery winnings, military pay, and limit property tax circuit breaker.		179
New Mexico	Permanently repeal certain rebate provisions.		
New York	Continued phase-in of income tax reduction.		
Oklahoma	Create low-income senior citizen exemption.		(4.0)
	Technical correction benefiting low-income taxpayers.		
	Lower top tax rate from 17% to 10% under Method II of tax calculations.		
Vermont	Reduce tax rate from 25% of federal tax liability to 24%; adopt earned income credit.	1/88	(8.5)
Wisconsin	Reduce two-earner married credit from 2.5% to 1.5%.	1/88	59.0
SALES TAX			
Arizona	Eliminate selected exemptions.	7/88	50.0
Idaho	Repeal auto trade-in exemption tax.	7/88	11.5
	Tax auto and miscellaneous repair services.	1/89	5.2
Kansas	Exempt business machinery and equipment.	1/88	(7.3)
Minnesota	Tax mail-order sales.	4/88	26.0
South Dakota	Allow sales tax to decrease from 5% to 4% as scheduled.	3/88	(48.0)
Washington	Extend excise tax deferral and credit programs for manufacturing and research and development activities.	7/88	(4.5)
	Extend sales tax to certain prepared foods.	7/88	8.1

Table A-9 *(continued)*
PROPOSED FISCAL 1989 TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 89 Revenue Change ($ in millions)*
Sales Tax *(continued)*			
Wisconsin	Extend sales tax to real estate rentals other than residential and agricultural, utilities during winter months, and sewerage and septic services.	1/89	$ 134.0
BUSINESS TAXES			
Arizona	Create minimum tax. Repeal federal income tax deduction. Conform to federal depletion rates.	1/88	6.2
Idaho	Repeal investment tax credit.		15.0
Iowa	Update corporate income tax to new Internal Revenue Code.		6.0
Kansas	Adopt alternative minimum tax.	1/88	–
Massachusetts	Update to federal Internal Revenue Code.		7.0
Michigan	Eliminate property tax credit for utilities under Single Business Tax.		13.0
Minnesota	Adopt some federal conformity items and change definition of foreign source income.		12.4
New York	Continued phase-in of corporate income tax reform.		
Rhode Island	Eliminate net worth tax for corporations.	1/90	(2.9)
CIGARETTE TAX			
Iowa	Increase rate from 26 cents a pack to 34 cents; will decrease to 31 cents effective 7/89. (Passed.)	3/88	29.5
	Increase tobacco products tax from 15% to 19%.	3/88	
West Virginia	Increase rate from 17 cents a pack to 22 cents.	7/88	8.5
	Levy a new 17 cent-a-pack tax on smokeless tobacco products.	7/88	3.7
Wyoming	Increase rate from 8 cents a pack to 20 cents.	7/88	12.8
MOTOR FUEL TAXES			
Idaho	Raise motor fuel tax from 14.5 cents a gallon to 19.5 cents.	7/88	26.5
Indiana	Increase gasoline tax from 14 cents a gallon to 15 cents; diesel fuel from 8 cents to 10 cents; and special fuels from 15 cents to 16 cents.		
	Increase weight distance tax.		

Table A-9 *(continued)*

PROPOSED FISCAL 1989 TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 89 Revenue Change ($ in millions)*
Motor Fuel Taxes *(continued)*			
Iowa	Increase gasoline and diesel fuel tax 2 cents a gallon in 1988; and 2 cents a gallon in 1989. Gasoline now 16 cents a gallon; diesel 18.5 cents a gallon.	7/88 7/89	
Maine	Raise gasoline and diesel fuel tax from 14 cents a gallon to 19 cents.		$ 35.0
Maryland	Increase motor fuel from 18.5 cents a gallon to 22 cents to offset loss from Motor Carrier Decal Fee (loss of $12 million).	7/88	12.0
New Jersey	Raised tax from 8 cents a gallon to 10.5 cents. (Passed legislature in January.)	7/88	
South Dakota	Increased motor fuel tax from 13 cents a gallon to 18 cents. (Passed legislature.)	4/88	
Vermont	Increase gasoline tax from 13 cents a gallon to 15 cents; diesel fuel from 14 cents a gallon to 16 cents.		
West Virginia	Increase motor fuel tax from 10.5 cents a gallon to 15.5 cents.	7/88	50
MISCELLANEOUS TAXES			
Idaho	Increase insurance premium tax.	7/88	1.8
Iowa	Increase alcohol beverage tax.	3/88	2.2
Michigan	Increase insurance premium tax.		45.0
	Restore bank tax to 1975 tax level.		13.0
Minnesota	Reduce pari-mutuel tax.	4/88	(3.2)
New Mexico	Raised coal severance tax. (Passed legislature.)	7/88	
New York	Improved enforcement of diesel fuel tax collections.	6/88	22.0
North Carolina	Increase merchants' sales tax discount for tax collection.	8/88	(27.0)
South Carolina	Increase low-level radioactive waste disposal tax from $6.00 per cubic foot to $9.81.	7/88	3.2
Vermont	Increase auto registration from $36 to $50.		
	Increase realty transfer tax from 0.5% to 0.75%.		
West Virginia	Increase soft drink tax from 1 cent per 16 ounces to 5 cents.	7/88	34.4
Wyoming	Increase tax on malt beverages.	7/88	3.2